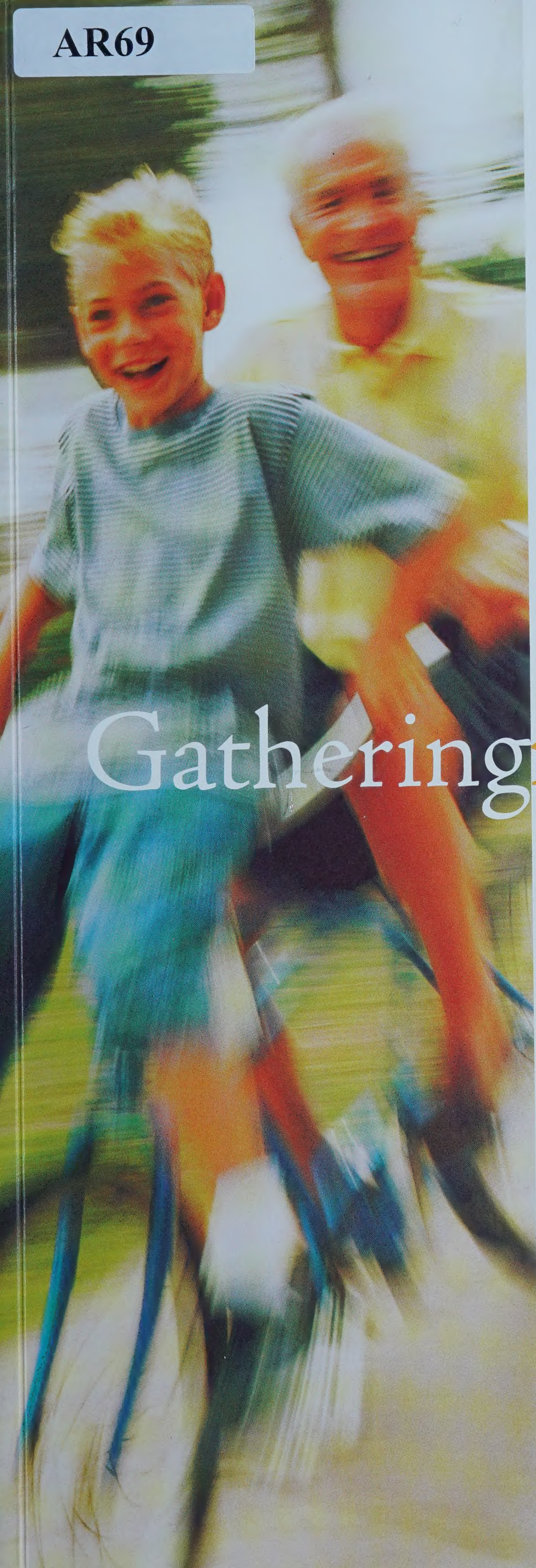
SunOpta



Gathering momentum

2003 annual report

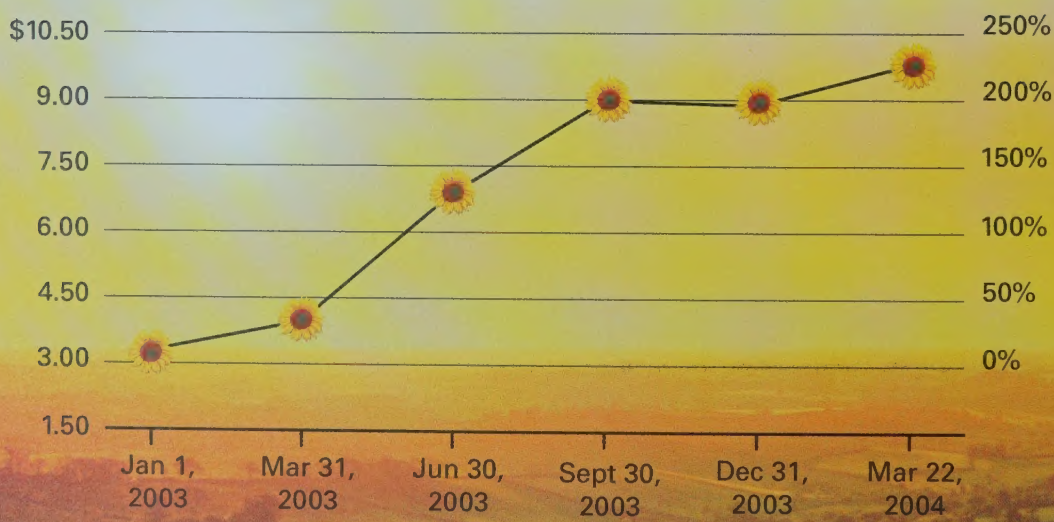
Financial Highlights

	2003	2002	Change %
Revenue	$ 199,099,000	$ 120,898,000	65%
Gross profit	35,678,000	19,467,000	83%
Gross profit as a % of revenue	17.9%	16.1%	
Net earnings	8,697,000	3,766,000	131%
Earnings per share – diluted	0.18	0.09	100%
Working capital	57,369,000	13,134,000	337%
Total assets	173,756,000	115,287,000	51%
Long-term debt	25,036,000	36,656,000	-32%
Shareholders' equity	119,947,000	49,527,000	142%
Book equity per share	2.28	1.18	93%
Market price at period end[1]	9.23	3.15	193%
Average daily trading volume[1]	331,000	51,000	549%

All dollar amounts in US$

Driving Shareholder Value

Cumulative Share[1] Performance Over the Past Year



(1) STKL on NASDAQ

Contents

A $100 investment in

SunOpta on

January 1, 2000 would be worth

$1,246 today(1)

The same investment in

the S&P 500 on

January 1, 2000 would be worth

$75 today(1)

Date of investment	Initial investment	Investment in S&P 500 (2)	Investment in SunOpta (2)
Jan. '00	$100	$75	$1,246
Jan. '01	$100	$83	$701
Jan. '02	$100	$95	$465
Jan. '03	$100	$125	$320

(1) As of March 22, 2004 (2) Investment value as of March 22, 2004

... primarily focused on environmental responsibility and the health and well-being of its communities

PROFILE

SunOpta is an owner and operator of growth oriented ethical businesses, primarily focused on environmental responsibility and the health and well-being of its communities.

The Company's largest operations, the SunOpta Food Group, specializes in sourcing, processing and distributing "good for you" functional, natural and organic food products, integrated from seed to packaged products. This Group operates several vertically integrated models, including soy, corn, oat and sunflower. The Food Group also operates the first Canadian national natural and organic foods distribution system.

The Company's other operations include Opta Minerals, a producer, distributor and recycler of environmentally friendly industrial minerals, and the StakeTech Steam Explosion Group which engineers and markets patented steam explosion technology.

MISSION

Our mission is to rapidly grow sales, profits and shareholder value through an effective balance of internal growth and acquisition, with a focus on integrated business models in the natural and organic food markets.

We value our growth

SunOpta's growth continued to accelerate throughout the year as a result of a clearly defined value system.

2003 was an exciting and historic year for our Company as we continued to realize significant growth, remaining focused on the rapidly growing natural and organic foods markets. This was also the year we completed our change in corporate identity, introducing our new corporate name of SunOpta Inc., and bidding a fond farewell to Stake Technology Ltd.

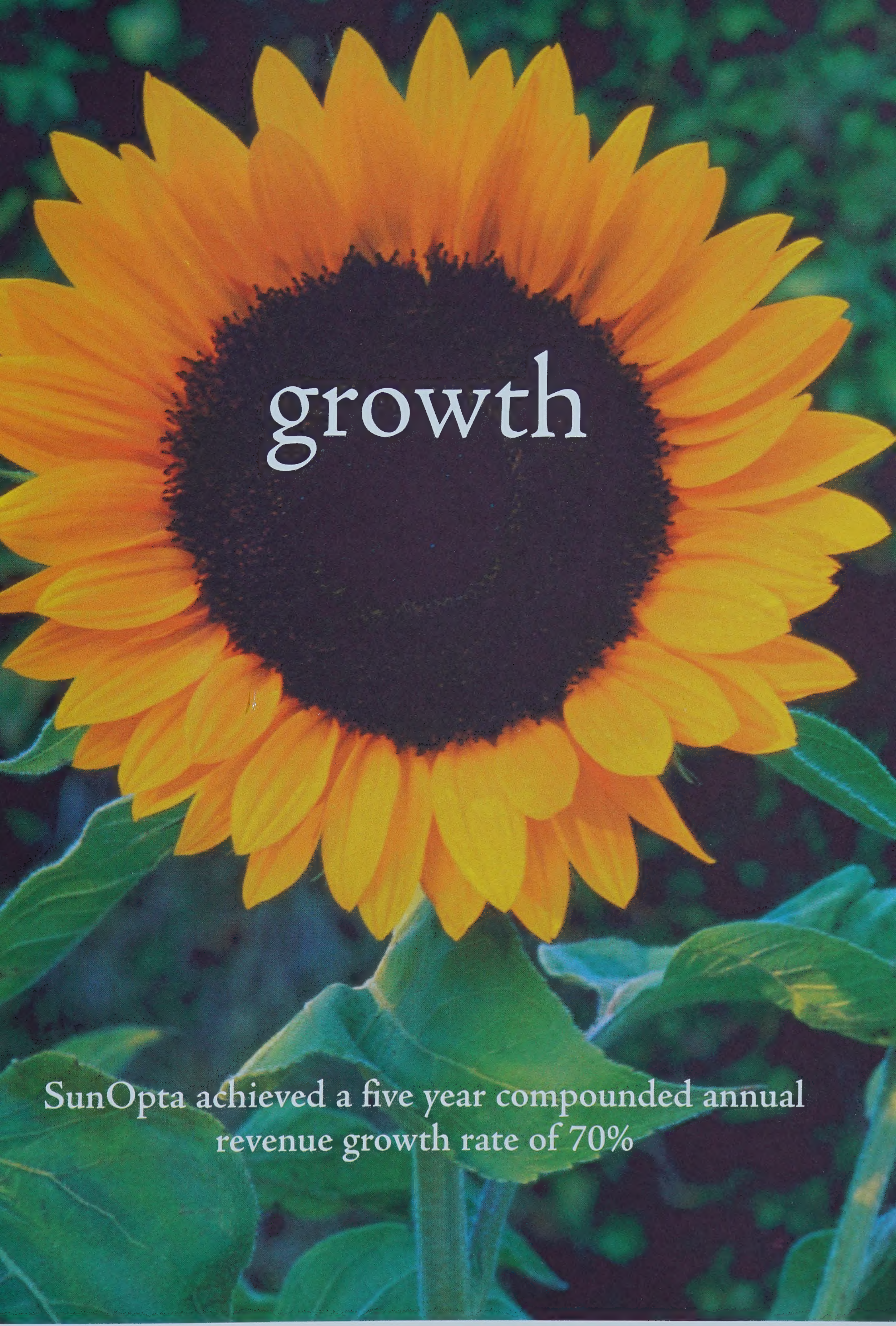
As a result of an established *pure direction*, our Company is quickly *gathering momentum*. In the past year, we aligned our operations strategically, integrated new acquisitions and enhanced our operating and financial structure, establishing a solid platform for continued future growth. Consequently, our shareholders have realized significant value over the past year, and will continue to realize value as we expand our operations and leverage the platform that is now in place.

We take pride in the integrity of our business processes, the quality of our products, our commitment to the well-being of the communities we serve, the transparency of our operations, and the quality and loyalty of our employees. Together these qualities are the foundation upon which our vertically integrated strategic model is based and our success to date can be largely attributed.

As we look to 2004, we continue to *gather momentum* as we focus on realizing significant gains in the natural, organic and functional foods markets. We are a growth company operating in growth markets.

Jeremy N. Kendall
Chairman and
Chief Executive Officer

Steven R. Bromley
Executive Vice President
and Chief Operating Officer


growth
SunOpta achieved a five year compounded annual revenue growth rate of 70%

SunOpta's Value System

Business can evolve but values must be consistent. Our purpose is to produce and distribute products which benefit the health of our consumers and sustain the integrity of the earth.

SunOpta's values include conducting our business in a manner which demonstrates:

1. Mutual respect for those with whom we work and serve.
2. Compassion, honesty and support in all our interactions, while maintaining and developing a culture which builds on the passion of our people and industry.
3. Respect for the environment where we pledge to minimize our impact and to support sustainable agricultural and environment practices.
4. Providing our customers with the highest quality of products and services, which are free of genetic modification and chemical treatment.
5. Management of our Company with the highest ethical standards in a transparent manner, dedicated to achieving an above average return for our shareholders.
6. Being active in the communities where we work by supporting consumer education as to the benefits of organic foods.

The Values System has been adopted by our Board of Directors, endorsed by Management and distributed to our employees. As our Company continues to grow, we will stand strongly behind these values, remaining focused on our mission to produce and distribute "good for you" natural and organic food products, inherently benefiting the health of our consumers and sustaining the integrity of the earth.

The fruits of our labor

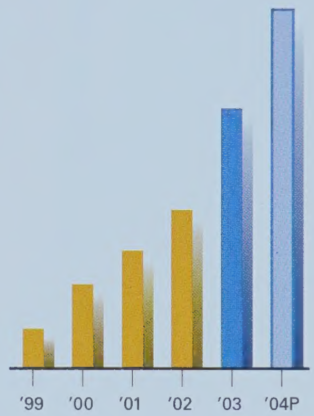
Revenues in 2003 grew 65% to $199 million from $121 million in 2002, culminating a five year compounded annual growth rate of 70%. Of this growth, 26% was generated organically, while the remaining growth was generated though acquisitions completed during 2002 and 2003. Our vertically integrated food operations represented 87.5% of revenues in 2003, while our environmental and steam explosion operations generated 12.5% of total revenues. Further segmentation of the Company's revenues is detailed in the notes to the consolidated financial statements included in this report.

Gross profit rose to $35.7 million in 2003, an 83.3% increase over 2002. The Company's gross profit as a percentage of revenue has steadily increased from 13.8% in 2001 to 17.9% in 2003, and is expected to increase further in 2004 as a result of an increase in revenues from higher margin products, improved plant utilization and the benefits of internal cost reductions, integration and rationalization initiatives.

Selling, general and administrative expenses (SG&A) increased in 2003 to 12.9% of revenues due in most part to higher costs associated with the acquisitions of distribution businesses which inherently carry higher SG&A costs as a percentage of revenue, and a number of one time charges related to facility rationalizations and other cost savings initiatives. We continue to focus on leveraging these costs and expect these to decline as a percentage of revenues as the Company grows.

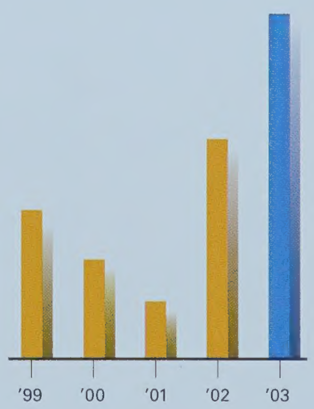
Net earnings rose from $3,766,000 in 2002 to $8,697,000 in 2003, an increase of 131%. The significant increase in the financial performance of the Company reflects the growth of the markets within which we operate and the positive impact of numerous strategic and operational initiatives implemented over the past number of years. Earnings per share rose from $0.09 per diluted common share in 2002 to $0.18 per diluted common share in 2003. Note that the number of shares outstanding increased by 25.5% in 2003, primarily as a result of equity financings completed during the third quarter.

Revenues
(millions of $)



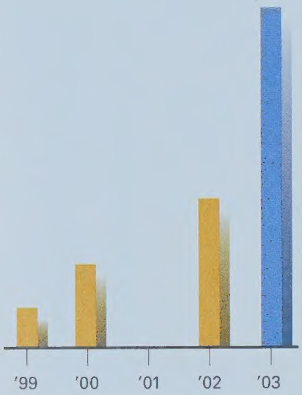
04 *(projected)*	275.0
03	**199.1**
02	120.9
01	89.8
00	63.8
99	29.7

Gross profit as a % of revenue



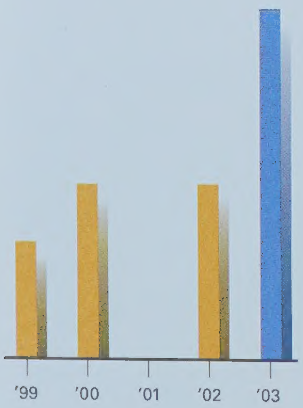
03	**17.9%**
02	16.1%
01	13.8%
00	14.4%
99	15.1%

Net earnings
(millions of $)



03	**8.7**
02	3.8
01	0.0
00	2.1
99	1.0

Earnings per share – diluted
($ per share)



03	**0.18**
02	0.09
01	0.00
00	0.09
99	0.06

Over the past year the Company's financial position strengthened significantly as a result of improved earnings, two equity financings netting proceeds of $53,004,000 and the receipt of $4,879,000 from the exercise of warrants and options. The balance sheet at December 31, 2003 reflects working capital of $57,369,000, including cash of $21,990,000, and a current ratio of 2.85 to 1. The funds raised from the equity offerings have been, and will continue to be used to fund strategic acquisitions and high growth internal expansion projects. The Company's long-term debt declined 32% in 2003 to $25,036,000, while net worth rose 142% from $49,527,000 to $119,947,000. On a year over year basis, book equity per common share increased from $1.18 to $2.28 in 2003.

The ingredients of our success

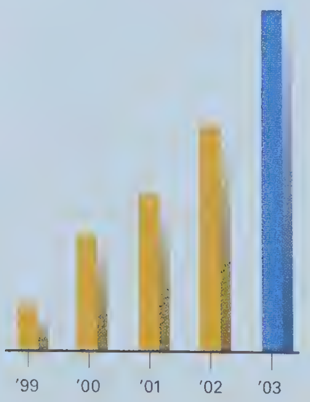
During 2003, the Company experienced strong growth in soy products, largely as a result of increased international sales of soybeans and significant growth in our core soy concentrate and aseptic packaging businesses. Our soy processing and packaging facilities operated at or near capacity throughout the year, and a number of exciting expansion projects have and will continue to be implemented. Significant investment was made in 2003 in equipment to raise processing yields, improve efficiencies and further improve quality. In addition, the Company is assessing the feasibility of equipment to process and dry a by-product resulting from the production of soymilk. Currently, this by-product is either land applied or delivered to local farms for feed purposes, at a considerable cost to the Company. This investment would allow for the production of a valuable organic dried product of feed grade quality, thus turning a cost into a valuable resource and a profit generating activity. The Company also expects to complete the expansion of its organic sweetener production capabilities in April 2004. These sweeteners are made from organic oats, corn and rice and are added to soymilk and other natural and organic food products. This investment further strengthens the value of the Company's vertically integrated soymilk model.


soymilk
We continue to strengthen the value of our vertically integrated soymilk model

Working capital
(millions of $)

03	**57.4**
02	13.1
01	17.1
00	1.6
99	4.3

Total assets
(millions of $)



03	**173.8**
02	115.3
01	80.1
00	58.3
99	22.2

During 2003, the Company continued to expand its private label soy beverage business and is now supplying both ingredients and finished product to a number of key retailers throughout the United States in both aseptic and refrigerated packages.

The Company's oat fiber sales have increased considerably over the past year as a result of the demand for fiber enriched products, increased concern over obesity levels in the general population and the high demand for low carbohydrate products stimulated by the Atkins and other diets.

Oat fiber has no dissolvable carbohydrates and can absorb up to seven times its weight in water. The use of oat fiber permits the replacement of starches and sugars in such products as breads, pastries, muffins, bagels, tacos, tortillas and pastas. Oat fiber is also used in other categories such as dairy, meat and snack food products. The Company currently operates two production facilities in Cambridge, Minnesota and Louisville, Kentucky and has recently agreed to purchase a third oat fiber facility located in Cedar Rapids, Iowa. As a result of this purchase and a series of internal expansions completed at the two existing SunOpta facilities, we will have increased our fiber processing capacity by approximately 100% since the start of 2003. This latest plant purchase will allow for product specialization by facility resulting in longer production runs and more efficient results. It will also allow SunOpta to continue to meet the demand of a growing market place and maintain our position as the largest producer of oat fiber for the food industry in the world.

In February 2004, we announced the closure and the transfer of the Company's St. Thomas, Ontario fiber and bran processing facility. By rationalizing this facility into our Cambridge, Minnesota facility, we will realize significant improvements in production capacity and customer service in addition to cost savings estimated at $600,000 per year, starting in the second half of 2004. We realize this rationalization has impacted the lives of our valued employees in St. Thomas and we are working with them to minimize the impact of this change.

During the past year, we continued to develop our mission to become the first Canadian national natural and organic foods distributor. Significant synergies have been realized in purchasing and logistics with the merger of Pro Organics, Wild West and Simply Organic and further synergies should be achieved with the acquisition of Distribue-Vie, a Montreal, Quebec-based distributor, completed in March 2004.

The Company's organic dairy and meat protein businesses grew slowly during 2003, but made good progress in the supply of organic dairy and protein products to industrial markets. The organic chicken market continues to grow and the Company recently began supplying organic pork under a contract with a major processor. These business units are expected to grow in 2004.

Our investment in increased organic sweeteners production further strengthens the value of the Company's vertically integrated business model.

New faces in the SunOpta family

Our healthy convenience foods offerings are growing steadily, due in most part to continued growth in the United States subsidized school meal programs as well as in private label product offerings.

In May 2003, the Company acquired the outstanding shares of Kettle Valley Dried Fruit Ltd., a manufacturer of natural and organic fruit bars. The Company operates three facilities, with two plants in the heart of the British Columbia apple growing district and a third operation, which was completed and opened in September 2003, in Omak, Washington. The fruit bars are made from locally grown apples with internally sourced oat fiber utilized as a key functional ingredient. This business is growing steadily, due in most part to continued growth in the United States subsidized school meal programs as well as in private label product offerings.

In December 2003, the Company acquired the outstanding shares of Sonne Labs, Inc., operating as Dakota Gourmet. This company manufactures natural and organic convenience foods made from soy, corn and sunflowers, many of which are sourced from our Grains and Soy Products Group. Kettle Valley and Dakota Gourmet are now working closely together and form the foundation for a projected $50 million Healthy Convenience Foods Group.

organic foods

Organic foods offerings are growing at 20% per year in North America

In October 2003, the Company acquired the outstanding shares of Pro Organics Marketing Inc., the largest distributor of organic fresh foods and bulk products in Canada with distribution facilities located in Vancouver, British Columbia, Toronto, Ontario and Montreal, Quebec. With this acquisition, SunOpta has become the largest distributor of organic fresh foods in Canada and is quickly reaching its objective of becoming the first national distributor, integrated from organic fresh foods, to grocery, to dairy and dairy alternatives. SunOpta's stated goal is to become the organic distributor of choice in Canada, as well as becoming a key distributor in Canada for our customers' products, thereby building mutually supportive profitable business relationships.

In November 2003, the Company acquired certain net assets of Sigco Sun Products, Inc., a company that is vertically integrated from the development and sale of sunflower seeds through to contracting, dehulling and packaging of in-shell and kernel sunflower products. Sigco specializes in large sized, in-shell products which are preferred by certain European customers and high-oleic kernel products which have a significantly increased shelf life versus regular kernels. The long shelf life kernel is important to food manufacturers who include sunflower in their final product offerings, such as cereals and cookies. The Sigco business model parallels SunOpta's soy and corn models. This company is headquartered in Breckenridge, Minnesota with facilities in Breckenridge, Minnesota, Wahpeton, North Dakota, Goodland, Kansas and Edson, Kansas.

In March 2004, the Company completed the acquisition of Distribue-Vie Fruits & Legumes Biologiques Inc., the dominant distributor of organic fresh foods and sundry bulk items in Quebec. This acquisition solidifies SunOpta's positioning in Quebec and further supports our stated national distribution objectives. In April 2004, the Company developed plans to merge the Pro Organics operation in Quebec with Distribue-Vie into a new, 22,000 square foot distribution center.

Organics on the rise

In 2003, certain areas in the United States experienced drought conditions, resulting in lower soybean crop yields and related production quantities. Nonetheless, we remain confident that we will be able to source our requirements for organic soybeans utilized in the production of our numerous soy products. Shipments of non-genetically modified beans to Asia may suffer shortfalls in 2004. However, other crops such as organic corn and identity preserved waxy corn experienced good yields and sales are expected to be strong. Overall, the organic soybean shortage is not expected to significantly affect the Company in 2004.

The continued growth in the farm production of genetically modified grains and soybeans remains a serious concern to us. Although organic farm land production is growing (organic farm land is currently estimated at 1.5 million hectares in the United States)[1], it must be recognized that it takes three years to achieve organic certification, during which time no application of pesticides, herbicides or artificial fertilizers can be used on the farm.

Shareholders' equity

(millions of $)

03	**119.9**
02	49.5
01	43.5
00	20.9
99	11.4

(1) U.S. Department of Agriculture's Economic Research Service

agriculture

We remain concerned over the long-term impact of genetically modified foods

As reported in the NON-GMO Source, the application of herbicides in the United States related to the planting of genetically modified crops has increased over the last three years by 73 million pounds, due in most part to farmers having to increase their application of these chemicals as weeds diversify and become more resistant to specific herbicides. As a Company, we do not believe this to be a positive development, and remain concerned over the long-term impact of genetically modified grains on the health of humans and the sustainability of our valued natural resources.

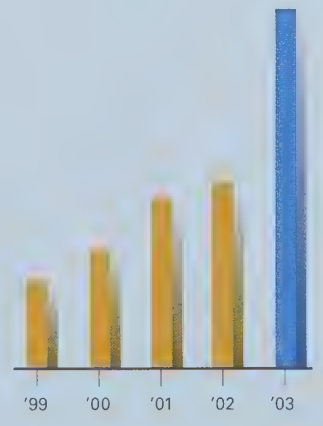
Most major food companies, both in manufacturing and retail, are recognizing the need to improve the healthfulness of the products that they produce and sell. Organic foods are growing at 20% and soy foods are growing in the mid-teens annually in North America[1], yet are still well behind the European adoption rate. Key trends in the food business include: the growth of organic foods, the recognition of the health benefits of soy products, the concern over the addition of chemicals, growth hormones and antibiotics to the food chain, concern over genetically modified products, the feeding practices of the meat and fish industries, and the recognition of the costs on the health system resulting from the eating habits of an increasingly overweight population. We believe that we are well positioned as these trends drive the need for the products and values of SunOpta.

Most of the major food companies, both in manufacturing and retail, are recognizing the need to improve the healthfulness of the products that they produce and sell.

Non-core operations contributing to our success

During the first quarter of 2004, the Company's Steam Explosion Group entered into a series of contracts with Abengoa Bioenergy R&D Inc. to provide research and development, lab services, engineering, testing related to the development and commercialization of processes and technology to be utilized in the conversion of biomass for ethanol production. Upon completion, this process should result in StakeTech Steam Explosion equipment being provided to two ethanol fuel facilities located in Nebraska and Salamanca, Spain. The United States has committed to doubling the production of ethanol fuel in the near future. In order to avoid affecting commodity prices of corn and wheat,

Shareholders' equity per share
($ per share)

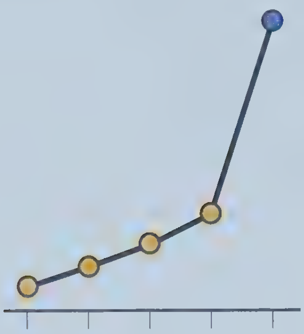


03	**2.28**
02	1.18
01	1.06
00	0.74
99	0.55

(1) Adams Harkness & Hill, Better Food & Nutrition Industry Report

Market price at period end[1]

($ per common share)



(1) STKL on NASDAQ

03	**9.23**
02	3.15
01	2.17
00	1.44
99	0.81

Annual shareholder returns

(based on period end market prices)

03	**193.0%**
02	45.2%
01	50.7%
00	77.8%
99	37.3%

a technological solution for the use of biomass to produce ethanol must be developed. We are pleased to be part of this solution. The technology developed will be jointly marketed with Abengoa, and can potentially be licensed to third parties over time.

The Company has also begun a research program to test the application of steam explosion technology to the production of various food fibers, including oat fiber. We believe that these efforts will result in significant cost and environmental improvements in our fiber process. To support these activities the Company has recently expanded laboratory facilities at its Norval, Ontario headquarters.

The Company's environmental business, Opta Minerals, did well in 2003 and is forecast to grow in 2004 as a result of a number of new product, processing and distribution initiatives and the completion of construction of our new abrasives plant in Baltimore, Maryland, scheduled for the third quarter of 2004. The sale of our production facility in Hamilton, Ontario, previously announced in 2003, was completed in January 2004. The operating equipment and business were transferred to two other facilities in early 2004. This rationalization allowed the group to recover approximately $1,000,000 in cash from the sale of the facility, and will generate annualized pre-tax savings of approximately $290,000.

As our Company continues to *gather momentum*, we are grateful to have the dedication and support of our valued customers, suppliers, business associates, employees and Board of Directors. We want to thank them all for their contributions in positioning SunOpta as an exciting and fast growing *healthy products company*.

Jeremy N. Kendall

Chairman and
Chief Executive Officer

Steven R. Bromley

Executive Vice President
and Chief Operating Officer

distribution

We continued to pursue our stated national distribution objectives in the last year

SunOpta Food Gro

From seed to table…

ertically integrated business models

gathering momentum

The Company's growth strategy coincides with key trends in the food industry

Management's Discussion and Analysis of Financial Conditions and Results of Operations

(All dollar amounts in US$)

The following Management's Discussion and Analysis (MD&A) for SunOpta Inc. (the "Company" or "SunOpta") should be read in conjunction with the consolidated financial statements and the related notes on pages 34 to 60 of this Annual Report.

In addition, further information is available in the Company's filing on Form 10-K, and other filings.

FORWARD-LOOKING STATEMENTS

This Annual Report, including this MD&A may contain certain forward-looking statements. Such statements relate to, among other things, sales growth, expansion and growth of the Company's business, future acquisitions and capital expenditures, and the Company's business strategy. Forward-looking statements are subject to inherent uncertainties, risks and other factors. These risks are outlined in the Operating and Financial Risks section of this MD&A. Consequently, actual results and events may differ significantly from those included in, contemplated or implied by such statements.

BUSINESS OVERVIEW

The Company's consolidated financial statements include the results of the organization's three principal operating groups:

> *SunOpta Food Group* – accounted for approximately 87% of 2003 revenues, with a focus on vertically integrated sourcing, processing and selling of soy, oat fiber and other natural and organic food products.

> *Opta Minerals Group* – accounted for approximately 12.5% of 2003 revenues, with a focus on processing, distributing and recycling industrial minerals.

> *StakeTech Steam Explosion Group* – accounted for less than 1% of 2003 revenues, with a focus on developing and commercializing proprietary steam explosion technology for processing of biomass into higher value products.

All operating groups are growth oriented ethical businesses, focused on environmental responsibility and the health and well-being of its communities.

During the year the Company expanded its reporting structure and has further refined its SunOpta Food Group segments as follows:

> *Grains and Soy Products Group* – the foundation of the Food Group, specializing in bringing a number of identity preserved, non-genetically modified and organic grains and related agronomic services to market with a core focus on soy, sunflower, corn, rice and oats.

> *SunOpta Ingredients Group* – specializes in technical processing of specialty food ingredients, with a focus on non-genetically modified, natural, functional and organic offerings.

> *Packaged and Distributed Products Group* – focused on branded and packaged foods businesses in both Canada and the U.S., the recently formed Canadian natural and organic distribution business and the healthy convenience foods business which includes the recent acquisitions of Kettle Valley and Dakota Gourmet.

The results of operations for the expanded reporting segments have been disclosed for 2003, but prior year results have not been expanded due to reporting constraints. Comparative analysis by expanded reporting segments will commence in the first quarter of 2004.

RECENT DEVELOPMENTS

In 2003, SunOpta augmented its vertically integrated business models with four additional food based acquisitions:

> **Kettle Valley** – In May 2003, the Company acquired all of the outstanding shares of Kettle Valley Dried Fruit Ltd. and its related companies. Kettle Valley produces natural and organic fruit bars and fruit leathers with an apple base and markets these products under the Kettle Valley Real Fruit Snack and Frunola brands. The Company operates two production facilities in Summerland, British Columbia, the heart of the B.C. apple growing district,

and has constructed a third plant in the State of Washington, the center of the apple growing region of the Western U.S. The acquisition of this business is in line with the Company's strategy to expand the natural and organic food business in Canada, and enter the healthy convenience foods market, a fast growing sector for natural or organic products.

> **Pro Organics** – In October 2003, the Company acquired all of the outstanding shares of Pro Organics Marketing Inc. and related companies. Pro Organics is a leading distributor of certified organic fresh foods in Canada with distribution facilities located in Vancouver, Toronto and Montreal. Along with Wild West and Simply Organic, both acquired in 2002, Pro Organics gives the Company a dominant market share of the certified organic fresh foods market in Canada.

> **Sigco** – In November 2003, the Company completed the acquisition of the business and certain net assets of Sigco Sun Products Inc. of Breckenridge, Minnesota. Sigco is a worldwide supplier of sunflower products and is fully integrated from the sale of sunflower seed to farmers through processing the contracted crop into finished in-shell and kernel sunflower products. The company operates four facilities located in Minnesota, North Dakota and Kansas. Sigco markets its non-genetically modified sunflower products throughout the United States and to international markets in Europe, Asia and the Americas. The acquisition builds on the Company's vertically integrated model from seed to table and diversifies the grain products that the Company sells.

> **Sonne Labs (Dakota Gourmet)** – In December 2003, the Company acquired all of the outstanding shares of Sonne Labs Inc. (operating as Dakota Gourmet). Dakota Gourmet is focused on the manufacture of innovative natural and organic snack foods using soy, corn and sunflower ingredients. These products are sold under the Dakota Gourmet brand and are also produced for private label customers. This acquisition will expand the Company's presence in the healthy convenience foods market and further supports the Company's strategy to grow its natural and organic product offering in this food sector.

In March 2004, the Company completed the acquisition of Distribue-Vie Fruits & Legumes Biologiques, Inc., an organic fresh foods distributor based in Montreal, Quebec. The addition of Distribue-Vie to the Company's Canadian natural and organic foods distribution system enhances the Company's position as the leading distributor of fresh foods in Canada.

Also in March 2004, the Company announced the planned purchase of the General Mills Cedar Rapids, Iowa oat fiber facility subject to completion of due diligence and definitive agreements. The purchase of this facility, together with capital expansions to the Company's existing oat fiber facilities completed in 2003 and 2004, will result in an increase in oat fiber capacity of 100% since the beginning of 2003. The Company's dedication to increasing oat fiber processing capacity is due to the significant increase in demand for oat fiber, resulting primarily from the popularity of low-carbohydrate diets, and the determination of major food companies to improve the healthfulness of the products they offer.

RESULTS OF OPERATIONS

2003 Operations Compared with 2002 Operations

Consolidated

Operating Results

	2003	2002	Chg %
Revenues	$ 199,099,000	$ 120,898,000	65%
Gross profit	$ 35,678,000	$ 19,467,000	83%
Gross profit %	17.9%	16.1%	
EBIT	$ 11,498,000	$ 5,580,000	106%
Net earnings	$ 8,697,000	$ 3,766,000	131%

Revenues for the year ended December 31, 2003, increased by 64.7% to $199,099,000 from $120,898,000 in 2002. The Company's net earnings for the year ended December 31, 2003 were $8,697,000 or $0.19 per basic common share (diluted – $0.18) compared to $3,766,000 or $0.09 per basic common share (diluted – $0.09) in 2002, an increase of 131%.

The revenue increase of $78,201,000 is attributable to a $77,488,000 increase in revenue from the SunOpta Food Group, an increase of $409,000 in revenue from Opta Minerals, and an increase in revenue attributable to StakeTech Steam Explosion of $304,000.

Net earnings before interest expense and income taxes (EBIT) in the year ended December 31, 2003 were $11,498,000 compared to $5,580,000 in 2002, an increase of $5,918,000 or 106.1%. The increase is attributable to the SunOpta Food Group, which increased by $5,980,000 or 131% and net decrease in Corporate and StakeTech Steam Explosion costs of $222,000 (including the effect of foreign exchange gains) or 12.1%, partially offset by a reduction in Opta Minerals of $284,000 or 11%.

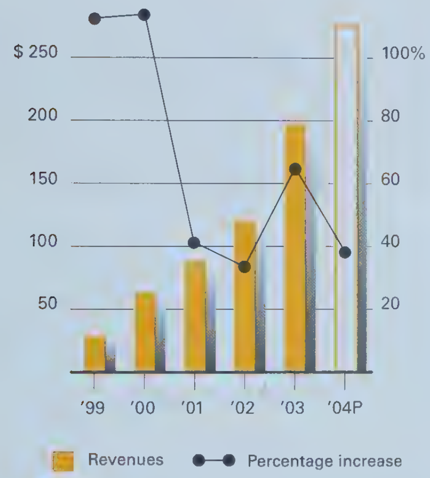
Interest expense increased to $1,942,000 in the year ended December 31, 2003 from $1,413,000 in 2002. The increase in interest expense reflects the loss on extinguishment of debt of $183,000 relating to the early redemption on the convertible debenture by the Company and the increase in borrowings prior to the equity financing completed in the year, to support acquisitions and internal growth.

The provision for income taxes in 2003 reflects the reversal of a valuation allowance against loss carry-forwards relating to certain U.S. operations since their utilization is now considered more likely than not. Without this reversal the tax rate would have been approximately 28%. The effective tax rate was 9.0% in 2003 compared to 9.6% in 2002.

U.S. readers should note that due to differences between Canadian and U.S. GAAP, net earnings for the year ended December 31, 2003 under U.S. GAAP were $8,940,000 or $0.19 per basic common share (diluted – $0.18) versus a $3,701,000 or $0.09 per basic common share (diluted – $0.09) in 2002. Note 17 to the consolidated financial statements itemizes these differences.

Revenues and percentage increase (1)

($ millions)



(1) Including acquisitions

Net earnings and diluted EPS

($ millions, except per share amounts)

Segmented Operations Information

Segmented Revenues

	2003	2002	Chg %
Food Group	$ 173,807,000	$ 96,319,000	80%
Opta Minerals	$ 24,831,000	$ 24,422,000	2%
Steam Explosion	$ 461,000	$ 157,000	194%

SunOpta Food Group

The SunOpta Food Group contributed $173,807,000 or 87.3% of the Company's total consolidated revenues in 2003 versus $96,319,000 or 79.7% in 2002. The increase in revenues as a percentage of total revenues reflects the Company's commitment to natural and organic foods and aggressive acquisition and internal growth strategies. Of the revenues recognized in 2003, the Grains and Soy Products Group accounted for $60,322,000 or 34.7% of Food Group revenue, the SunOpta Ingredients Group accounted for $49,949,000 or 28.7% of Food Group revenue, and the Packaged and Distributed Products Group accounted for $63,536,000 or 36.6% of Food Group revenue.

The increase of $77,488,000 or 80.5% in SunOpta Food Group revenues was due to an increase in grain sales of $13,377,000, an increase in sales of aseptic soy and packaged products of $9,709,000 due to increased demand, in addition to the acquisitions (including internal growth on base revenues subsequent to such acquisition) of Opta, Organic Kitchen, Wild West and Simply Organic in 2002 and the acquisitions of Sigco Sun Products, Pro Organics, Kettle Valley and Sonne Labs in 2003 totalling $58,707,000. These increases were partially offset by decreases in certain soy ingredients sales of $1,790,000, decrease in dairy blending revenue of $1,139,000 due to normal fluctuations in this business, decrease in certain toll processing revenue of $819,000 and decreases in certain other consumer products of $551,000.

Gross profit in the SunOpta Food Group increased by $16,889,000 in 2003 to $30,086,000 or 17.9% of revenues compared to $13,197,000 or 13.7% of revenues in 2002. The increase in gross profit reflects the higher gross profit margins of certain acquired businesses and improvements in efficiencies and volumes at the Company's aseptic packaging operation, partially offset by the significant increase in grain sales which is a lower margin business.

Selling, general and administrative expenses (SG&A) increased to $19,704,000 or 11.3% of sales in 2003 from $9,088,000 or 9.4% of sales in 2002. The increase of $10,616,000 is due primarily to acquisitions completed in 2002 and 2003 of $10,945,000, partially offset by certain cost reduction programs implemented throughout the Group.

EBIT in the SunOpta Food Group was $10,536,000 in 2003 compared to $4,556,000 in 2002. The Grains and Soy Products Group accounted for $2,745,000, the SunOpta Ingredients Group accounted for $4,797,000, and the Packaged and Distributed Products Group accounted for $2,994,000 of the EBIT in this Group. Readers should be advised that certain internal product transfers of Grains and Soy Products to the SunOpta Ingredients Group and Packaged and Distributed Products Group are accounted for at cost.

Opta Minerals Group

Opta Minerals contributed $24,831,000 or 12.5% of the total Company's consolidated revenues in the year ended December 31, 2003, compared to $24,422,000 or 20.2% in 2002. Improved abrasive and mineral sales from the Canadian operations of $993,000 were partially offset by weak abrasive sales in the U.S. East Coast as a result of reduced ship repair activity of $823,000. Specialty sands revenues, including coated sands, water filtration sands and garnets improved by $239,000 over the same period in 2002.

Gross profit in Opta Minerals was $5,132,000 in 2003 versus $6,112,000 in 2002. As a percentage of revenues, gross margin decreased to 20.7% for the current year from 25.0% in 2002. The decrease in margin is partially due to the shift in revenues to the Canadian operations, which have inherently lower margins versus abrasive sales in the U.S., and a reallocation of certain plant operating costs from selling, general and administrative expenses to cost of goods sold in 2003 of approximately $404,000 (after adjustment for the reallocation, 2002 gross margin was 23.3%).

SG&A expenses decreased to $2,605,000 or 10.5% in sales in 2003 from $3,258,000 or 13.3% in sales in 2002 a decrease of $653,000. The decrease is primarily due to the reallocation noted above of $404,000, and cost reduction programs implemented throughout the Group.

EBIT was $2,580,000 in 2003 versus $2,864,000 in 2002.

StakeTech Steam Explosion Group and Corporate

Revenues and gross profit of $461,000 in the year ended December 31, 2003 and $157,000 in 2002 were primarily derived from licence fees. The increase in 2003 is attributable to the recognition of $150,000 in license fees relating to 2002 and the recognition of a full year of license fees in 2003.

SG&A expenses were $3,479,000 in the year ended December 31, 2003 compared to $1,935,000 in the year ended December 31, 2002. The increase of $1,545,000 reflects the additional amortization and costs of bank financing fees of $324,000, a $300,000 allowance for doubtful accounts, an increase in professional fees of $250,000 for specific transactions and an increase in costs of $671,000 related to the administration of a growing public company.

Interest and other income (expense) increased to $114,000 in the year ended December 31, 2003 from ($212,000) recognized in 2002. The gains recorded in 2003 are primarily attributable to a gain on sale of non-core property of $134,000, a gain recognized on a discharged liability of $133,000 and interest earned on higher cash balances held subsequent to the equity financing completed in August 2003.

Corporate foreign exchange gains in 2003 increased to $1,288,000 from $209,000 in 2002, resulting primarily from the translation of net assets held in Canada due to the appreciation of the Canadian dollar during the year.

EBIT was ($1,618,000) for 2003, compared to an EBIT of ($1,840,000) in 2002.

2002 Operations Compared with 2001 Operations

Consolidated

Operating Results

	2002	2001	Chg %
Revenues	$ 120,898,000	$ 89,822,000	35%
Gross profit	$ 19,467,000	$ 12,372,000	57%
Gross profit %	16.1%	13.8%	
EBIT	$ 5,580,000	$ 1,911,000	192%
Net earnings	$ 3,766,000	$ 19,000	>1000%

Revenues in the year ended December 31, 2002, increased by 34.6% to $120,898,000 from $89,822,000 in 2001. Earnings increased to $3,766,000 or $0.09 per common share from $19,000 or $0.00 per common share in 2001. The increase in the Company's revenues of $31,076,000 in 2002 is due to a number of factors including increased sales of aseptic packaged soymilk products of $12,808,000, increased sales of bulk grains of $9,647,000, increased sales of specialty beans and dietary fiber of $3,089,000, the three acquisitions and one start-up within the Canadian natural and organic foods business in 2002 totalling $2,585,000, the acquisition of Opta Food Ingredients, Inc. in December 2002, which added $1,942,000, and the acquisitions of the business and certain assets of Virginia Materials & Supplies, Inc. and the outstanding common shares of International Materials and Supplies, Inc. (Virginia Materials) in October, 2001 resulted in increased revenues of $5,351,000.

Net earnings for the year ended December 31, 2002 increased to $3,766,000 from $19,000 in 2001, due to improved financial performance at Nordic Aseptic, the Company's aseptic packaging operations of $1,990,000 after tax, as well as improved volumes and margins in dietary fiber of $624,000 after tax and certain grain and agronomy products of $276,000 after tax. In addition, cost reduction programs implemented throughout the Company and certain price increases in Opta Minerals combined with the incremental earnings through the October 2001 Virginia Materials acquisition resulting in $1,097,000 after tax contributed to improved earnings. The Company realized reduced borrowing costs as a result of new banking arrangements implemented in 2002 of $232,000 after tax, reduced effective tax rate due to the reversal of a valuation allowance recorded against tax loss carry-forward of $550,000 partially offset by the write-down

of the Company's 32% investment in Easton Minerals Limited of $366,000, reduced StakeTech Steam Explosion earnings of $187,000 after tax and net higher corporate costs of approximately $300,000 after tax. The Company wrote down the value of the Easton Minerals Limited investment to $nil since the shares have not traded since early 2002 and a potential financing to facilitate a business merger in 2002 did not materialize.

U.S. readers should note that due to differences between Canadian and U.S. GAAP, the net earnings for the year ended December 31, 2002 under U.S. GAAP were $3,701,000 or $0.09 per common share versus a loss of ($231,000) or ($0.01) per common share in 2001.

The Company's consolidated gross margin improved to 16.1% in the year ended December 31, 2002 from 13.8% in 2001. The key drivers of this improvement are provided in the segmented operations information detailed below.

SG&A expenditures increased 28.2% in the year ended December 31, 2002 to $14,281,000 from $11,142,000 in 2001. The increase in administrative costs is consistent with the growth in food operations, the 2002 acquisitions, the Virginia Materials acquisition completed in October 2001 and increased Corporate costs to support a rapidly growing public company. These increases were partially offset by a reduction in amortization expense as a result of the Company adopting the new CICA Handbook Section 3062 "Goodwill and Intangible Assets" on January 1, 2002, whereby goodwill and indefinite life intangibles are no longer amortized. Amortization of goodwill and intangibles, included in SG&A expenses in the year ended December 31, 2001, was $492,000.

Interest expense decreased to $1,413,000 in the year ended December 31, 2002 from $1,745,000 in 2001. The decrease in borrowing costs relates mainly to a decrease in the effective borrowing rate due to the consolidation of a number of loans under the new financing arrangements which resulted in lower interest rates and a decrease in floating interest rates on certain debt instruments versus 2001.

Interest and other income was $218,000 in the year ended December 31, 2002, compared to $326,000 in the year ended December 31, 2001. Included in the results for the year ended December 31, 2002 was a write-down of the Company's 32% investment in Easton Minerals Limited of $366,000, offset by a gain in the sale of non-core assets of $285,000, which included certain surplus real estate properties obtained in the acquisitions of Barnes Environmental International and Northern Food & Dairy, Inc.

Provision for income taxes increased to $401,000 in the year ended December 31, 2002, compared to $147,000 in 2001. The effective tax rate decreased from 88.6% in 2001 (2001 included a tax refund of $85,000 related to the reassessment of an acquired business) to 9.6% in 2002 mainly due to the realization of certain loss carry-forwards including the realization of the previously unrecorded Nordic loss carry-forwards of $550,000 and tax planning strategies implemented by the Company.

Segmented Operations Information

Segmented Revenues

		2002		2001	Chg %
Food Group	$	96,319,000	$	69,973,000	38%
Opta Minerals	$	24,422,000	$	19,490,000	25%
Steam Explosion	$	157,000	$	359,000	(56%)

Food Group

The Company treated the Food Group as one reporting segment in 2002. With the continued expansion of the Food Group, the Company has transitioned its management structure and related reporting systems to support its vertically integrated food model. The Company has expanded its segmented reporting for the year ending December 31, 2003 however it was not practical to break out the segments for the year ending 2002 and 2001.

The Food Group contributed $96,319,000 or 79.7% of total Company consolidated revenues in the year ended December 31, 2002 versus $69,973,000 or 77.9% in the same period in 2001. The increase of $26,346,000 or 37.7% (of which 31.4% was generated through internal growth), was due primarily to increased sales of aseptic packaged soymilk at Nordic Aseptic of $12,808,000, an increase in sales of bulk grains and specialty beans of $9,528,000, a supply contract cancellation fee of $1,557,000 and the acquisitions of the Canadian natural and organic food companies and Opta in the second half of 2002.

Gross margin in the Food Group increased by $4,364,000 in the year ended December 31, 2002 to $13,197,000, or 13.7%, from $8,833,000 or 12.6% in 2001. The increase in gross margin reflects the positive impact of improved product margins on organic feed, dietary fiber and various other specialty processed products of $664,000, the impact of the turnaround at Nordic Aseptic of $3,262,000, cost reduction initiatives undertaken throughout the Group, the supply contract cancellation fee of $1,557,000 and acquisitions completed in 2002, offset by lower margins on bulk grains and certain retail consumer products of $862,000.

SG&A expenses increased to $8,301,000 in the year ended December 31, 2002 versus $6,297,000 in the year ended December 31, 2001. The increase is due primarily to an increase in payroll and related costs (as the organization continues to support the growth in operations), SG&A expenses incurred through acquisitions and legal costs of approximately $200,000, due in most part to an action against a former supplier for failure to adhere to the terms of a supply contact.

The Food Group EBIT increased to $4,556,000 in the year ended December 31, 2002 from $1,655,000 in 2001 as a result of the improved financial performance at Nordic Aseptic, improved volumes and margins on grains, specialty beans and dietary fiber. Earnings also benefited from internal cost control programs, the supply contract cancellation fee, a one-time gain on sale of property and the reversal of a valuation allowance on the Nordic loss carry-forwards that was previously provided.

Opta Minerals Group

Opta Minerals contributed $24,422,000 or 20.2% of the Company's consolidated revenues in the year ended December 31, 2002, versus $19,490,000 or 21.7% in 2001, an increase of $4,932,000 or 25.3%. Revenues were favourably impacted by the acquisition of Virginia Materials in October 2001 of $5,351,000, partially offset by weak market and economic conditions in the Canadian steel and foundry businesses, the economic impact of the September 11th tragedy on the demand for abrasives and continued competition in the silica and coated sands markets.

Gross profit in Opta Minerals increased to $6,112,000 in the year ended December 31, 2002 versus $3,256,000 in the year ended December 31, 2001, an increase of $2,856,000 or 87.7%. The increase in gross profit resulted primarily from the acquisition of Virginia Materials and improvements in price and sales mix, offset by a decrease in volume as a result of the economic conditions noted above. As a percentage of revenues, gross margin improved to 25.0% in 2002 from 16.7% in 2001.

SG&A expenses increased to $2,933,000 in the year ended December 31, 2002 from $2,326,000 in 2001. The increase is due in most part to a full year of expenses in relation to Virginia Materials.

EBIT improved significantly in the year ended December 31, 2002 to $2,864,000 versus $836,000 in 2001, due in most part to the addition of Virginia Materials and improved price and sales margins on certain products, offset by unfavourable economic and market conditions in the Canadian steel and foundry businesses and increased competitive pressures on key product groups.

StakeTech Steam Explosion Group and Corporate

Revenues of $157,000 in the year ended December 31, 2002 and $359,000 in 2001 were derived primarily from licence fees. The decrease in revenues over the prior year is due to the uncertainty of collection of the second half of the annual licence fees. The remainder of the licence fee revenue will be recorded once collection becomes certain.

Cost of goods sold for the year ended December 31, 2002 was $nil versus $76,000 in 2001 (mainly amortization charges). The asset was fully amortized in 2001, and therefore no amortization was recorded in 2002.

SG&A expenses were $3,047,000 in the year ended December 31, 2003 compared to $2,514,000 in 2001. The increase was due to an increase in the costs of administering a growing public company including incremental payroll and related costs, public relations, professional fees and financing costs, in addition to accrued costs in the settlement of a legal action.

For the year ended December 31, 2002 the Group had an EBIT of ($1,840,000) compared to ($580,000) in 2001.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

The Company obtains its short-term financing through a combination of cash generated from operating activities, cash and cash equivalents, and available operating lines of credit. At December 31, 2003, the Company's cash and cash equivalents totalled $21,990,000. An additional $13,983,000 is immediately available in operating lines of credit with a syndicate of lenders.

The Company obtains its long-term financing through its credit agreement with a syndicate of lenders. The Company fully intends to renew this agreement prior to, or upon maturity in 2005, and may expand this credit agreement, and/or obtain additional long-term financing for internal expansion uses, acquisitions or other strategic purposes.

The Company has the following sources from which it can fund its operating 2004 cash requirements:

> Cash and cash equivalents;
> Available operating lines of credit;
> Cash flows generated from operating activities;
> Cash flows generated from the sale of assets held for sale;
> Cash flows generated from receipts of warrants and options currently in-the-money; and
> Additional long term financing based on securitization of existing assets.

In order to finance significant acquisitions beyond those already completed in 2004, the Company would need additional sources of cash which could be obtained through a combination of additional bank or subordinated financing, a private or public share offering, the issuance of shares in relation to an acquisition or a divestiture. The Company intends to maintain a target debt to equity ratio of 0.6 to 1 versus the current position of 0.21 to 1.

The Company anticipates having no issues in obtaining additional long-term financing in view of its current financial position and past experience in the capital markets.

The table below sets out the Company's obligation under its long-term debt, long-term payables, operating and capital leases at December 31, 2003:

	2004 $	2005 $	2006 $	2007 $	2008 & thereafter $	Total $
Long-term debt & capital leases	3,840,000	18,934,000	793,000	764,000	705,000	25,036,000
Operating leases	2,930,000	2,625,000	2,289,000	1,813,000	2,001,000	11,658,000
Long-term payables	740,000	718,000	503,000	370,000	–	2,331,000
	7,510,000	22,277,000	3,585,000	2,947,000	2,706,000	39,025,000

This table does not include certain contingent consideration related to acquisitions in 2002 and 2003 that may become payable if predetermined profit targets are achieved.

Analysis of Long-Term Financing Costs

	2003	2002	Chg %
Total long-term debt at period end (1) (including current portion)	$ 25,036,000	$ 21,470,000	17%
Interest expense (2)	$ 1,759,000	$ 1,413,000	25%
Interest coverage (3)	6.5:1	3.9:1	63%

(1) Excluding the tender facility in 2002

(2) Excluding charge related to settlement of convertible debenture in 2003

(3) EBIT divided by interest expense

Major Cash Flow Components

	2003	2002	Chg %
Cash flows from operating activities	$ 1,926,000	$ 72,000	>100%
Cash flows used in investing activities	$ (21,624,000)	$ (18,546,000)	17%
Cash flows from financing activities	$ 34,187,000	$ 22,031,000	55%

Cash Flows from Operating Activities

2003 cash flows provided by operations before working capital changes was $14,041,000 (2002 – $6,989,000), an increase of $7,052,000 or 101%. The increase was due primarily to an increase in net earnings and an increase in amortization.

Cash provided by operations after working capital changes was $1,926,000 for 2003 (2002 – $72,000), reflecting the use of funds for non-cash working capital of ($12,115,000) (2002 – ($6,917,000)). This utilization consists principally of an increase in accounts receivable ($3,484,000), an increase in inventories ($4,976,000), an increase in prepaid expenses and other assets and income taxes recoverable of ($1,686,000) and a decrease in accounts payable and accrued liabilities ($2,139,000), offset by a an increase in customer deposits of $1,357,000. The usage of cash flows to fund working capital in 2003 reflects the increase in working capital requirements required to fund the rapid growth in operations.

2004 cash flows from operations are expected to increase at a rate consistent with EBIT growth.

Cash Flows from Investing Activities

Cash used in investment activities of $21,624,000 in 2003 (2002 – $18,546,000), reflects cash used to complete acquisitions, net of cash acquired, of $17,594,000 (2002 – $21,919,000) and acquisitions of property, plant and equipment of $7,139,000 (2002 – $4,464,000), offset by a decrease of short-term investments for proceeds of $2,038,000 (2002 – $6,307,000) and payments received on a note receivable of $1,071,000 (2002 – $1,425,000).

The Company expects to invest approximately $12,000,000 in 2004 in internal capital projects, of which, based on experience, approximately 70 to 75% will be growth projects and 25 to 30% will be maintenance and viability projects.

Cash Flows from Financing Activities

Cash provided by financing activities was $34,187,000 in 2003 (2002 – $22,031,000), consisting primarily of net proceeds from the issuance of common shares of $56,601,000, primarily from the public and private offerings in August 2003, offset by net repayment of long-term debt facilities of $15,791,000 (2002 – net borrowings of $17,943,000), net decrease in operating lines of credit of $5,531,000 (2002 – net increase of $2,757,000), payment of deferred purchase consideration to the former owner of Virginia Materials of ($602,000) (2002 – ($982,000)), deferred financing costs of ($343,000) (2002 – ($796,000)) and the purchase and redemption of preference shares of subsidiary companies of ($147,000) (2002 – ($129,000)).

BUSINESS OUTLOOK

The organic food industry in the North American market is currently estimated to be in excess of $10 billion based on management's estimates and growing to $30.7 billion by 2007[1]. The industry is composed of a large number of companies competing in specific segments of the market. However, there are relatively few companies well positioned to take advantage of this rapidly growing market, currently estimated to be growing at 10 to 20% annually. The Food Group's vertically integrated business model coupled with its growth strategy based on a combination of internal growth and acquisitions, has positioned the Company as a leader in the North American natural and organic foods market.

Based on current market projections and annualized results of the acquisitions completed in 2003, the Company expects revenues in 2004, excluding additional potential acquisitions, to be approximately $275,000,000, a 38% increase over 2003. In addition, the Company's business plan includes strategies and initiatives designed to improve the underlying performance of the operations and to improve the quality of earnings. Specifically, the Company is looking to improve the strategic synergies across its food operations, vertically integrating wherever possible. Initiatives to improve the productivity of the operations include, plant rationalization programs, continued training and development of employees, consolidated procurement and internal services programs, and consolidated information and accounting systems to provide better analysis and timely decision-making.

As previously stated, the Company will continue to pursue strategic alternatives for its non-core operations; the Opta Minerals Group and StakeTech Steam Explosion Group. However, the Company will only divest itself of these operations if and when a strategy that is beneficial to the shareholders of SunOpta is identified. In 2003, Opta Minerals provided approximately 12% of the Company's consolidated

(1) Projection by research firm Datamonitor based on market research.

revenues and EBIT of $2,580,000. The StakeTech Steam Explosion Group continues to focus on selling the steam explosion technology to the Chinese market and is also pursuing a number of potential food and bio-fuel applications. The outlook for the Group for 2004 is uncertain due to the time and effort required to complete the signing of each contract.

INVESTMENT RISK

Volatility – The Common Shares of the Company are speculative in nature and involve a high degree of risk. Accordingly, in analyzing an investment in these securities, prospective investors should carefully consider the following risk factors, together with all of the other information appearing, or incorporated by reference, in this document, in light of his or her particular financial circumstances and/or investment objectives. These risk factors could materially and adversely affect our future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to us.

Potential Share Dilution – As of December 31, 2003, there are approximately 5,268,527 warrants and stock options outstanding to purchase Common Shares, with exercise prices ranging from $1.06 to $9.90 per Common Share. The exercise of these warrants and stock options could result in dilution in the value of our Common Shares and the voting power represented thereby. Furthermore, to the extent the holders of our warrants and stock options exercise such securities and then sell the Common Shares they receive upon exercise, our share price may decrease due to the additional amount of Common Shares available in the market. The subsequent sales of these shares could encourage short sales by our shareholders and others which could place further downward pressure on our share price. Moreover, the holders of our warrants and stock options may hedge their positions in our Common Shares by short selling our Common Shares, which could further adversely affect our stock price.

The Company has also implemented an employee stock purchase plan (ESPP) beginning March 1, 2004. The program will allow all qualifying employees to buy the Company's stock at a discount to market prices.

In addition, to attract and retain key personnel or to raise capital, we may issue additional securities, including stock options. No prediction can be made as to the effect, if any, that future issuance of stock options, the ESPP or sales of our Common Shares, or the availability of Common Shares for future sale, will have on the market price of our Common Shares prevailing from time to time. Sales of substantial amounts of our Common Shares in the public market, or the perception that such sales could occur, may adversely affect the market price of our Common Shares and may make it more difficult for us to sell our equity securities in the future at a time and price which we deem appropriate.

Dividend Restraints – We have not paid dividends on our Common Shares since our inception and have used available cash resources to fund growth. Moreover, we are precluded under the terms of various agreements with our creditors from paying dividends without approval from certain creditors. It is our intention to retain future earnings to fund growth. We will consider paying dividends on our Common Shares in the future when circumstances permit, having regard to, among other things, our earnings, cash flow and financial requirements, as well as relevant legal and business considerations. Accordingly, investors should not expect to receive a return on investment in our Common Shares through the payment of dividends in the foreseeable future and may not realize a return on investment even if they sell their shares. Any future payment of dividends to holders of our Common Shares will depend on decisions that will be made by the Board of Directors and will depend on then existing conditions, including our financial condition, contractual restrictions, capital requirements and business prospects. Also, if we pay dividends, the receipt of cash dividends by United States shareholders from a Canadian corporation may be subject to a 5 to 15% Canadian withholding tax.

OPERATING AND FINANCIAL RISKS

In the normal course of business, the Company is exposed to operating and financial risks that have the potential to affect its operating results. The Company has operating and financial risk management strategies which help to minimize these risks.

Capital Investment – Our facilities in Alexandria, Minnesota and Cambridge, Minnesota operate at, or near, capacity on many of their processing lines. Continued growth in these operations is reliant upon our ability to increase capacity through internal capital projects, new facilities or acquisition. Our ability to raise capital, through equity and/or debt financing, is directly related to our ability to continue to grow and improve returns from operations. Additional capital through equity financing may also result in additional dilution to our current shareholders and a decrease in our share price if we are unable to realize returns equal to or above our current rate of return. We will not be able to maintain our growth rate and our strategy as a consolidator within the natural and organic food industries without continued access to capital.

Consumer Preferences – 87% of our fiscal 2003 consolidated revenue was derived from the Food Group. Our success depends, in part, on our ability to offer products that anticipate the tastes and dietary habits of consumers and appeal to their preferences on a timely and affordable basis. A significant shift in consumer demand away from our products or products that utilize our integrated ingredients, or our failure to maintain our current market position could reduce our sales, which could harm our business. Consumer trends change based on a number of possible

factors, including nutritional values, such as a change in preference from fat free to reduced fat to no reduction in fat; and a shift in preference from organic to non-organic and from natural products to non-natural products. These changes could lead to, among other things, reduced demand and price decreases, which could have a material adverse effect on our business.

Competition – We carry on businesses in highly competitive product and geographic markets in the U.S., Canada and various international markets. The Grains and Soy Products Group and the SunOpta Ingredients Group compete with large companies in the U.S. and various international commercial grain procurement marketers, major chemical companies with food ingredient divisions, other food ingredient companies, stabilizer companies and consumer food companies that also engage in the development and sale of food ingredients. The Food Group's Packaged and Distributed Products Group competes against conventional food distributors, providers of organic meat and organic dairy products and significantly larger food companies that provide specialty or high end products. Many of these competitors have financial resources and staff larger than ours and may be able to benefit from economics of scale, pricing advantages and greater resources to launch new products that compete with our offerings. We have little control over and cannot otherwise affect these competitive factors. If we are unable to effectively respond to these competitive factors or if the competition in any of our product markets results in price reductions or decreased demand for our products, our business, results of operations and financial condition will be materially impacted.

Business Interruption – We own, manage and operate a number of manufacturing, processing and packaging facilities located throughout the United States and Canada. The Food Group operates from seventeen processing facilities (thirteen owned, four leased) in seven U.S. states and two Canadian provinces. Opta Minerals operates from six locations (three owned, three leased) located throughout the United States and Canada. The StakeTech Steam Explosion Group operates its facilities at our corporate location in Norval, Ontario.

An interruption in or the loss of operations at one or more of these facilities, or the failure to maintain our labor force at one or more of these facilities, could delay or postpone production of our products, which could have a material adverse effect on our business, results of operations and financial condition until we could secure an alternate source of supply.

Management – Our future prospects depend to a significant extent upon the continued service of our key executives, and our continued growth depends on our ability to identify, recruit and retain key management personnel. The competition for such employees is intense. We are also dependent on our ability to continue to attract, retain and motivate our sourcing, production, distribution, sales, marketing and other personnel.

Supply Chain – Our supply chain is complex. We rely on third parties for our raw materials and for the manufacturing, processing and distribution of many of our products. The inability of any of these third parties to deliver or perform for us in a timely or cost-effective manner could cause our operating costs to rise and our margins to fall. Many of our products are perishable and require timely processing and transportation to our customers. Many of our products can only be stored for a limited amount of time before they spoil and cannot be sold. We must continuously monitor our inventory and product mix against forecasted demand, or risk having inadequate supplies to meet consumer demand as well as having too much inventory that may reach its expiration date. If we are unable to manage our supply chain efficiently and ensure that our products are available to meet consumer demand, our operating costs could increase and our margins could fall.

Raw Material Pricing – Raw materials used in the Food Group and Opta Minerals represent a significant portion of our cost of sales. Our cost to purchase these materials, such as organic grains and abrasive industrial minerals, from our suppliers can fluctuate depending on many factors, including weather patterns, economic and political conditions and pricing volatility. In addition, we must compete with competitors having substantially greater resources than us for limited supplies of these raw materials. If the cost of these materials increases due to any of the above factors, we may not be able to pass along the increased costs to our customers.

Commodity Pricing – The Food Group enters into exchange traded commodity futures and options contracts to hedge its exposure to price fluctuations on grain transactions to the extent considered practicable for minimizing risk from market price fluctuations. Futures contracts used for hedging purposes are purchased and sold through regulated commodity exchanges. Inventories, however, may not be completely hedged, due in part to our assessment of our exposure from expected price fluctuations. Exchange purchase and sales contracts may expose us to risk in the event that a counter-party to a transaction is unable to fulfill its contractual obligation. We are unable to hedge 100% of the price risk of each transaction due to timing, availability of hedge contracts and third party credit risk. In addition, we have a risk of loss from hedge activity if a grower does not deliver the grain as scheduled.

Technological Innovation – Competitors include major chemical companies, other food ingredient companies and consumer food companies that also engage in the development and sale of food ingredients. Many of these companies are engaged in the development of texturizers and other food ingredients and have introduced a number of texturizers into the market. Existing products or products under development by our competitors could prove to be more effective or less costly than any products which have been or are being developed by us.

Intellectual Property – We and particularly our Food Group and StakeTech Steam Explosion Group depend, in part, on our ability to protect intellectual property rights. We rely primarily on patent, copyright, trademark and trade secret laws to protect our proprietary technologies. The failure of any patents or other intellectual property rights to provide protection to our technologies would make it easier for our competitors to offer similar products, which could result in lower sales or gross margins.

The Food Group has developed a number of new ingredients and alternatives to accommodate new product adaptation of these and other ingredients into various food items. The nature of a number of the Food Group's products and processes requires us to create and maintain a number of patents and trade secrets. The Food Group's policy is to protect its technology by, among other things, filing patent applications for technology relating to the development of its business in the U.S. and in selected foreign jurisdictions.

Our trademarks and brand names are registered in the United States, Canada and other jurisdictions and we intend to keep these filings current and seek protection for new trademarks to the extent consistent with business needs. We rely on trade secrets and proprietary know-how and confidentiality agreements to protect certain of the technologies and processes used by the Food Group.

In addition, the StakeTech Steam Explosion Group holds a number of patents on its steam explosion process and is marketing a clean pulping system with a special focus on China. We recognize that there exists a threat of others attempting to copy our proprietary steam explosion technology. To mitigate this risk, the normal business practice of this group includes the signing of confidentiality agreements with all parties to which confidential information is supplied including all customers and licensees. We also hold several patents on our equipment and process technology.

Environmental Regulation and Policies – We are, and expect to continue to be, subject to substantial federal, state, provincial and local environmental regulation. There are specific regulations governing the recycling of solid waste material regulated by the Ontario Ministry of Environment and Energy and the Commonwealth of Virginia, Department of Environment Quality. Some of the key regulations include:

> Air Quality – regulated by Environmental Protection Agency (EPA) and certain city/state air pollution control groups. Emission reports are filed annually;

> Waste Treatment/Disposal – solid waste is either disposed of by a third-party or in some cases the Company has a permit to haul and apply the sludge to land. Agreements exist with local city sewer districts to treat waste at specified levels of biochemical oxygen demand (BOD) and total suspended solids (TSS);

> Sewer – agreements with the local city sewer districts to treat waste as specified limits of BOD and TSS, which requires weekly/monthly reporting as well as annual inspection; and

> Hazardous Chemicals – various reports are filed with local city/state emergency response agencies to identify potential hazardous toxic chemicals being used, including reports filed with the Department of Public Safety Emergency Response Commission in Minnesota and the Kentucky Emergency Response Commission.

Permits are required from various state, provincial and local authorities, including the Minnesota Pollution Control Agency, the Commonwealth of Virginia, Department of Environmental Quality and the Ontario Ministry of Environment related to air quality, storm water discharge, solid waste, land spreading and hazardous waste.

In the event that our safety procedures for handling and disposing of potentially hazardous materials in certain of our businesses were all to fail, we could be held liable for any damages that result and any such liability could exceed our resources. We may be required to incur significant costs to comply with environmental laws and regulations in the future. In addition, changes to environmental regulations may require us to modify our existing plant and processing facilities and could significantly increase the cost of those operations.

Our soymilk processing facility and aseptic packaging facility, both located in Alexandria, Minnesota, are currently not in complete compliance with the industrial permit limits for the discharge of industrial waste water. To regain compliance, we will apply for increased discharge limits. We have installed a pretreatment system which came online in early 2004. We have an agreement with the sanitary district to operate the pretreatment system for 60 days. After the 60 days we will review the effectiveness of the pretreatment system and begin negotiations for a combined permit for the two facilities. If we fail to regain compliance through the foregoing actions, we could be required to reduce our discharge of such industrial waste water to approved levels, which may force us to reduce production and/or transfer part of our production capabilities to other facilities.

The foregoing environmental regulations, as well as others common to the industries in which we participate, can present delays and costs that can adversely affect business development and growth. If we fail to comply with applicable laws and regulations, we may be subject to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on our business, results of operations and financial condition. In addition, any changes to current regulations may impact the development, manufacturing and marketing of our products, and may have a negative impact on our future results.

Food Regulations – The Food Group is affected by state and federal fertilizer, pesticide, food processing, grain buying and warehousing, and wholesale food regulations. Government-sponsored price supports and acreage set aside programs are two examples of policies that may affect the Food Group. The Food Group is currently in

compliance with all state and federal regulations. Because the Food Group is involved in the manufacture, supply, processing and marketing of organic seed and food products, it is voluntarily subject to certain organic quality assurance standards.

Certain food ingredient products are regulated under the 1958 Food Additive Amendments to the Federal Food, Drug and Cosmetic Act of 1938 (FDCA), as administered by the United States Food and Drug Administration (FDA). Under the FDCA, pre-marketing approval by the FDA is required for the sale of a food ingredient which is a food additive unless the substance is Generally Recognized As Safe (GRAS) under the conditions of its intended use by qualified experts in food safety. We believe that most products for which the Food Group has retained commercial rights are GRAS. However, such status cannot be determined until actual formulations and uses are finalized. As a result, the Food Group may be adversely impacted if the FDA determines that our food ingredient products do not meet the criteria for GRAS.

In December 2000, the United States Department of Agriculture (USDA) adopted regulations with respect to a national organic labelling and certification program which became fully effective in October 2002. These regulations, among other things, set forth the minimum standards producers must meet in order to have their products labelled as "certified organic". We currently manufacture and distribute a number of organic products that are covered by these new regulations. While we believe our products and our supply chain are in compliance with these regulations, changes to food regulations may increase our costs to remain in compliance. In addition, in January 2001, the FDA proposed new policy guidelines regarding the labelling of genetically engineered foods. These guidelines, if adopted, could require us to modify the labelling of our products, which could affect the sales of our products and thus harm our business. We could lose our "organic" certification if a facility becomes contaminated with non-organic materials or if we do not use raw materials that are certified organic. The loss of our "organic" certifications could materially harm our business, results of operations and financial condition.

Product Liability – As a manufacturer and marketer of natural and organic food products and environmental mineral products, we are subject to the risk of claims for product liability. If a product liability claim exceeding our insurance coverage were to be successfully asserted against us, it could harm our business.

Steam Explosion Technology – The StakeTech Steam Explosion Group's technology has yet to gain wide acceptance within the industry and, consequently, earnings can fluctuate from quarter to quarter. Its patented steam technology, while proven, has yet to develop a firm customer base. The success of this division will depend upon its ability to promote commercial acceptance of our steam explosion technology.

Bonding and Guarantees – For the StakeTech Steam Explosion Group to enter markets such as China, we expect to have to provide substantial performance guarantees in the form of process guarantees and equipment guarantees. These guarantees will need to be backed by bank guarantees and/or surety bonds. We endeavor to reduce the associated risks, however there will always remain a possibility that our guarantees or bonds could be called, rightfully or wrongfully and/or that the equipment supplied fails to meet the guarantees and warranties provided resulting in potential financial losses.

Key Customer – We have one customer, The Hain Celestial Group, whose purchases from SunOpta in fiscal 2003 amounted to more than 10% of our revenue. As a result of this concentration of our customer base, the loss or cancellation of business from The Hain Celestial Group could materially and adversely affect our business, financial condition or results of operations.

Exchange Rates and Interest Rates – We are exposed to foreign exchange rate fluctuations as the financial results of our Canadian Corporate office and our Canadian subsidiaries are translated into U.S. dollars on consolidation and to interest rate risk as a large percentage of our term debt is at variable rates.

Integration – Our growth strategy inherently assumes that we will be able to identify suitable acquisition candidates on terms acceptable to us and that these acquisitions, if pursued and completed, will be integrated successfully. Our ability to effectively integrate current and future acquisitions, including our ability to realize potentially available marketing opportunities and cost savings in a timely and efficient manner will have a direct impact on our future results. We may encounter problems in connection with the integration of any new businesses, such as:

> Integration of an acquired brand or business' distribution channels with those of SunOpta;

> Integration of an acquired company's products into our product mix;

> Amount of cost savings that may be realized as the result of our integration of an acquired brand or business;

> Unanticipated quality and production issues with acquired products;

> Adverse effects on business relationships with our suppliers and customers;

> Diversion of management attention;

> Difficulty with personnel and loss of key employees;

> Compatibility of financial control and information systems; and

> Exchange rate risk with respect to our acquisitions in Canada.

Management's Responsibility for Reporting

The accompanying consolidated financial statements of SunOpta Inc. and all the information in the annual report are the responsibility of management, and have been approved by the Board of Directors.

The financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles. When alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Reconciliation of these policies to U.S. accounting policies are described in note 17 to the consolidated financial statements. Management has prepared the financial information presented in this annual report and has ensured that it is consistent with that presented in the financial statements.

SunOpta Inc. maintains systems of internal accounting and administrative controls consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and all members are independent directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, related disclosure controls, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers the engagement or re-appointment of the external auditors for review by the Board and approval by the shareholders. The financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors, in accordance with generally accepted auditing standards in Canada and the United States of America on behalf of the shareholders. PricewaterhouseCoopers LLP has full and free access to the Audit Committee.

John Dietrich
Vice President and Chief Financial Officer

Auditors' Report

To the Shareholders of SunOpta Inc.

We have audited the consolidated balance sheets of SunOpta Inc. as at December 31, 2003 and 2002 and the consolidated statements of earnings, retained earnings and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada and the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Mississauga, Ontario

February 20, 2004
(except as to note 18, which is of March 1, 2004)

Consolidated Statements of Earnings

For the years ended December 31, 2003, 2002 and 2001	**2003**	2002	2001
(Expressed in thousands of U.S. dollars, except per share amounts)	**$**	$	$
Revenues	**199,099**	120,898	89,822
Cost of goods sold	**163,421**	101,431	77,450
Gross profit	**35,678**	19,467	12,372
Selling, general and administrative expenses	**25,788**	14,281	11,142
Earnings before the following	**9,890**	5,186	1,230
Interest expense	**(1,942)**	(1,413)	(1,745)
Interest and other income	**531**	218	326
Foreign exchange gain	**1,077**	176	355
	(334)	(1,019)	(1,064)
Earnings before income taxes	**9,556**	4,167	166
Provision for income taxes *(note 11)*	**859**	401	147
Net earnings for the year	**8,697**	3,766	19
Net earnings per share for the year *(note 15)*			
Basic	**0.19**	0.09	0.00
Diluted	**0.18**	0.09	0.00

(See accompanying notes to consolidated financial statements)

Consolidated Balance Sheets

As at December 31, 2003 and 2002	2003	2002
(Expressed in thousands of U.S. dollars)	**$**	$
ASSETS *(note 8)*		
Current assets		
Cash and cash equivalents	**21,990**	7,012
Short-term investments	**–**	2,038
Accounts receivable – trade	**26,241**	18,144
Current portion of note receivable *(note 3)*	**–**	1,034
Inventories *(note 4)*	**34,778**	22,989
Prepaid expenses and other current assets	**2,524**	958
Income taxes recoverable	**1,686**	–
Future income taxes *(note 11)*	**1,172**	115
	88,391	52,290
Assets held for sale *(note 5)*	**6,007**	5,020
Property, plant and equipment, net *(note 5)*	**44,761**	32,013
Goodwill and intangibles, net *(note 6)*	**25,084**	14,992
Future income taxes *(note 11)*	**9,023**	9,892
Other assets *(note 7)*	**490**	1,080
	173,756	115,287
LIABILITIES		
Current liabilities		
Bank indebtedness *(note 8)*	**–**	3,963
Accounts payable and accrued liabilities	**24,664**	19,664
Customer and other deposits	**1,778**	421
Current portion of long-term debt *(note 8)*	**3,840**	11,557
Current portion of long-term payables *(note 9)*	**740**	3,551
	31,022	39,156
Long-term debt *(note 8)*	**21,196**	25,099
Long-term payables *(note 9)*	**1,591**	1,505
	53,809	65,760
SHAREHOLDERS' EQUITY		
Capital stock *(note 10)*	**96,670**	38,020
Authorized		
Unlimited common shares without par value		
Issued		
52,705,096 (December 31, 2002 – 41,984,118) common shares		
Contributed surplus	**2,968**	2,914
Retained earnings	**16,167**	7,470
Currency translation adjustment	**4,142**	1,123
	119,947	49,527
	173,756	115,287

Commitments and contingencies *(note 14)*

(See accompanying notes to consolidated financial statements)

Signed on behalf of the Board

Jeremy N. Kendall
Director

Joseph Riz
Director

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2003, 2002 and 2001	Capital Stock	Contributed Surplus	Retained Earnings	Currency Translation Adjustment	Total
(Expressed in thousands of U.S. dollars)	$	$	$	$	$
Balance at December 31, 2000	**14,258**	**2,910**	**3,685**	**40**	**20,893**
Shares and warrants issued to acquire First Light Foods	804	–	–	–	804
Shares and warrants issued under private placements	19,776	–	–	–	19,776
Options exercised	1,037	–	–	–	1,037
Net earnings for the year	–	–	19	–	19
Currency translation adjustment	–	–	–	971	971
Balance at December 31, 2001	**35,875**	**2,910**	**3,704**	**1,011**	**43,500**
Warrants exercised and issued, net of repurchased	1,694	4	–	–	1,698
Options exercised	397	–	–	–	397
Convertible right associated with convertible debenture	54	–	–	–	54
Net earnings for the year	–	–	3,766	–	3,766
Currency translation adjustment	–	–	–	112	112
Balance at December 31, 2002	**38,020**	**2,914**	**7,470**	**1,123**	**49,527**
Warrants exercised	1,861	–	–	–	1,861
Compensation warrants exercised	761	–	–	–	761
Options exercised	2,257	–	–	–	2,257
Shares issued under equity offerings	53,004	–	–	–	53,004
Shares issued to acquire Kettle Valley	821	–	–	–	821
Convertible right	(54)	54	–	–	–
Net earnings for the year	–	–	8,697	–	8,697
Currency translation adjustment	–	–	–	3,019	3,019
Balance at December 31, 2003	**96,670**	**2,968**	**16,167**	**4,142**	**119,947**

(See accompanying notes to consolidated financial statements)

Consolidated Statements of Cash Flows

For the years ended December 31, 2003, 2002 and 2001	**2003**	2002	2001
(Expressed in thousands of U.S. dollars)	**$**	$	$
Cash provided by (used in)			
Operating activities			
Net earnings for the year	**8,697**	3,766	19
Items not affecting cash			
Amortization	**5,484**	4,130	3,706
Future income taxes	**(475)**	(1,000)	(142)
Write-down of investment	**–**	366	–
Other	**335**	(273)	(189)
	14,041	6,989	3,394
Changes in non-cash working capital, net of businesses acquired *(note 12)*	**(12,115)**	(6,917)	(3,074)
	1,926	72	320
Investing activities			
Decrease (increase) in short-term investments	**2,038**	6,307	(6,307)
Acquisition of companies, net of cash acquired	**(17,594)**	(21,919)	(2,172)
Acquisition of property, plant and equipment, net of disposals	**(7,139)**	(4,464)	(3,907)
Proceeds from notes receivable	**1,071**	1,425	1,393
Other	**–**	105	(49)
	(21,624)	(18,546)	(11,042)
Financing activities			
Increase (decrease) in line of credit facilities	**(5,531)**	2,757	(1,020)
Borrowings under long-term debt and tender facility	**8,907**	34,883	1,042
Repayment of long-term debt	**(24,698)**	(16,940)	(6,188)
Repayment of deferred purchase consideration	**(602)**	(982)	–
Proceeds from the issuance of common shares, net of issuance costs	**56,601**	2,091	20,813
Financing costs	**(343)**	(796)	–
Decrease (increase) in restricted cash	**–**	1,147	(1,147)
Purchase and redemption of Preference Shares of subsidiary companies	**(147)**	(129)	(117)
	34,187	22,031	13,383
Foreign exchange gain on cash held in foreign currency	**489**	91	67
Increase in cash and cash equivalents during the year	**14,978**	3,648	2,728
Cash and cash equivalents – Beginning of year	**7,012**	3,364	636
Cash and cash equivalents – End of year	**21,990**	7,012	3,364

See note 12 for supplemental cash flow information

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, except per share and share amounts)

1. Description of business and significant accounting policies

SunOpta Inc. (the "Company") was incorporated under the laws of Canada on November 13, 1973. Formerly operating as Stake Technology Ltd., the Company changed its name to SunOpta Inc. on October 31, 2003. The new corporate name combines the names of two of the Company's historical operating food groups, the Sunrich Food Group and Opta Food Ingredients. The change reflects the Company's commitment to environmental responsibility and to the natural and organic food markets. The Company conducts business in three main areas, the SunOpta Food Group (Food Group) processes, packages and distributes a wide range of natural and organic food products via its vertically integrated operations with a focus on soy, oat fiber and other natural and organic food products. Opta Minerals (formally the Environmental Industrial Group) processes, distributes and recycles industrial minerals. The StakeTech Steam Explosion Group markets proprietary steam explosion technology systems for the pulp, bio-fuel and food processing industries. The Company's assets, operations and employees at December 31, 2003 are located in the United States and Canada.

The Company's significant accounting policies are outlined below. These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada. Differences arising from the application of accounting principles generally accepted in the United States are described in note 17.

Basis of presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated on consolidation.

Cash and cash equivalents

Cash and cash equivalents consist of unrestricted cash and short-term deposits with a maturity of less than 90 days.

Short-term investments

Short-term investments consist of portfolio investments in other companies and deposits with a maturity at acquisition of greater than 90 days, and are valued at market.

Inventories

Raw materials and finished goods inventories are valued at the lower of cost and estimated net realizable value. Cost is determined on a first-in, first-out basis.

Inventories of grain, are valued at market. Changes in market value are included in cost of goods sold. The Food Group generally follows a policy of hedging its grain transactions to protect gains and minimize losses due to market fluctuations. Futures and purchase and sale contracts are adjusted to market price and gains and losses from such transactions are included in cost of goods sold. The Company has a risk of loss from hedge activity if the grower does not deliver the grain as scheduled. The Company also has inventories consisting of sunflowers and specialty beans which are valued at cost.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated amortization.

Amortization is provided on property, plant and equipment on the diminishing balance basis or, in the case of certain U.S.-based subsidiaries, straight-line basis at rates based on the estimated useful lives of the assets as follows: 10 to 33% for office furniture and equipment, machinery and equipment and vehicles and 4 to 8% for buildings. Amortization is calculated from the time the asset is put into use.

Goodwill and intangibles

The Company adopted CICA Handbook Section 3062 "Goodwill and Intangible Assets" on January 1, 2002. This standard eliminates the need for amortization of goodwill and indefinite life intangible assets. Goodwill represents the excess of the purchase price over the assigned value of net assets acquired.

In accordance with the standard, the Company has assessed the carrying value of goodwill and indefinite life intangibles for possible impairment, and has determined that no such impairment exists as at December 31, 2003. The Company's definite life intangible assets consist of customer lists, trademarks and distribution agreements and are amortized straight line over their estimated useful lives, ranging from 4 to 15 years. As required by the standard, the new rules related to goodwill and other intangible assets have been applied prospectively. On a pro-forma basis, the impact of adopting the new standard on 2001 earnings were:

	2001 $
Net earnings for the year	19
Add back: goodwill and trademark amortization, net of tax	492
Adjusted net earnings for the year	511
Adjusted net earnings per basic and diluted common share	0.02

Other assets

i) *Pre-operating costs*

Net costs incurred in the pre-operating stage of a start-up business are deferred until the business reaches commercial operation or the passage of a certain period of time as predetermined by management. As at December 31, 2003 the unamortized balance of pre-operating costs was $nil (2002 – $358; 2001 – $353).

The Company deferred pre-operating expenses of $308 in 2002 relating to the start up of an organic dairy business in Canada. Amortization of these costs on a straight line basis commenced in July 2002 and as at December 31, 2003 these costs have been fully amortized.

In 2000, the Company acquired Nordic Aseptic, Inc., which was considered a start-up business from the date of acquisition to December 31, 2000. Certain operating costs, net of income earned during the pre-operating period totaling $482 were deferred. Amortization of these costs commenced January 1, 2001 and as of December 31, 2003 these deferred costs have been fully amortized.

ii) *Deferred financing costs*

Costs incurred in connection with obtaining long-term financing are deferred and amortized over the term of the instrument.

iii) *Investments*

The Company has a 32% (2002 – 32%) investment in Easton Minerals Limited ("Easton"). This investment is considered impaired and the carrying value at December 31, 2003 is $nil (2002 – $nil). The investment was accounted for using the equity method of accounting. The Company does not have any guaranteed obligations with respect to Easton or any commitment to provide further financial support, and therefore it is not anticipated that further losses will be recorded on this investment.

All other subsidiaries are 100% owned at December 31, 2003. Investments in these subsidiaries are recorded using the consolidation method, whereby revenues and expenses are consolidated with the results of the Company.

Revenue recognition

i) *SunOpta Food Group*

Grain revenues are recorded at the time of shipment. Revenues from custom processing services are recorded upon provision of services and upon completion of quality testing. All other Food Group revenues are recognized upon the shipment of product or at the time the service is provided to the customer.

ii) *Opta Minerals*

Revenues from the sale of industrial minerals are recognized upon the sale and shipment of the related minerals. Revenues from recycling activities are recognized upon the sale and shipment or the disposal of non-hazardous material received.

iii) *StakeTech Steam Explosion Group*

The percentage of completion method is used to account for significant contracts in progress when related costs can be reasonably estimated. The Company uses costs incurred to date as a percentage of total expected costs to measure the extent of progress towards completion.

License fees related to the right to sell the Company's technologies are recorded as revenues over the term of the license, when collectibility is reasonably assured.

Change in reporting currency

The Company historically prepared and filed its consolidated financial statements in Canadian dollars. On January 1, 2002 the Company adopted the United States (U.S.) dollar as its reporting currency for presentation of its consolidated financial statements. With the recent acquisitions of a number of companies in the United States, a significant portion of the Company's net earnings are earned by its U.S. operations. Historical consolidated results have been restated using a translation of convenience, whereby all historical results have been reflected using the exchange rate in effect on December 31, 2001 of $1 U.S. to $1.5928 CDN. The functional currency of all operations located in the United States and the corporate head office is the United States dollar. The functional currency of all other operations located in Canada is the Canadian dollar.

Foreign currency translation

The Company's operations are self-sustaining operations, with the exception of the corporate head office, which is considered to be an integrated operation. The assets and liabilities of the self-sustaining operations are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the period. Unrealized gains or losses resulting from translating self-sustaining operations are accumulated and reported as a currency translation adjustment in shareholders' equity.

Customer and other deposits
Customer and other deposits principally include prepayments by the Food Group's customers for merchandise inventory to be purchased during the spring planting season and an amount of $1,260 at December 31, 2003 (December 31, 2002 – $nil) related to a deposit received on an option agreement related to a property held for sale (note 5).

Income taxes
The Company follows the asset and liability method of accounting for income taxes whereby future income tax assets are recognized for deductible temporary differences and operating loss carry-forwards, and future income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Future income tax assets are recognized only to the extent that management determines that it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment. The income tax expense or benefit is the income tax payable or refundable for the period plus or minus the change in future income tax assets and liabilities during the period.

Employee stock compensation
The Company measures the expense associated with its stock based compensation using the intrinsic value method. Employee/director stock options granted by the Company contain exercise prices which are equivalent to the closing market price of the shares on the day prior to the grant date. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to capital stock. No compensation expense is recorded upon issuance of stock options to employees. Stock options granted have a maximum life of six years and usually vest over a four year period.

The fair value of the options granted during 2003, 2002 and 2001 was estimated using the Black-Scholes option-pricing model with the assumptions of a dividend yield of 0% for each year, an expected volatility of 55% (2002 – 60%; 2001 – 30%), a risk-free interest rate of 2.5% (2002 – 3%; 2001 – 3%), and an expected life of four years.

Pro-forma net earnings (loss), reflecting stock compensation expense for 2003, 2002 and 2001 are as follows:

	2003	2002	2001
Number of options granted	1,152,450	415,100	1,238,125
	$	$	$
Total fair value	3,328	630	508
Net earnings for the year as reported	8,697	3,766	19
Stock compensation expense:			
Options vested in current year from current year grants	664	126	410
Options vested in current year from prior years grants	241	115	65
	905	241	475
Pro-forma net earnings (loss) for the year	7,792	3,525	(456)
Pro-forma net earnings (loss) per common share			
Basic	0.17	0.08	(0.01)
Diluted	0.16	0.08	(0.01)

Derivative instruments
The Food Group enters into exchange-traded commodity futures and options contracts to hedge its exposure to price fluctuations on grain transactions to the extent considered practicable for minimizing risk from market price fluctuations. Futures contracts used for hedging purposes are purchased and sold through regulated commodity exchanges. Inventories, however, may not be completely hedged, due in part to the Company's assessment of its exposure from expected price fluctuations. Exchange purchase and sales contracts may expose the Company to risk in the event that a counter party to a transaction is unable to fulfill its contractual obligation. The Company manages its risk by entering into purchase contracts with pre-approved growers.

The Company has a risk of loss from hedge activity if a grower does not deliver the grain as scheduled. Sales contracts are entered into with organizations of acceptable creditworthiness, as internally evaluated. All futures transactions are marked to market. Gains and losses on futures transactions related to grain inventories are included in cost of goods sold.

Financial Instruments

The Company's financial instruments recognized in the consolidated balance sheets and included in working capital consist of cash and cash equivalents, short-term investments, accounts receivable, other current assets, accounts payable and accrued liabilities and customer and other deposits. The fair values of these instruments approximate their carrying value due to their short-term maturities.

The Company's financial instruments that are exposed to credit risk include cash and cash equivalents, short-term investments and accounts receivable. The Company places its cash, cash equivalents and short-term investments with institutions of high credit worthiness. The Company's trade accounts receivable are not subject to a high concentration of credit risk. The Company routinely assesses the financial strength of its customers and, as a consequence, believes that it accounts receivable credit risk exposure is limited. The Company maintains an allowance for losses based on the expected collectibility of the accounts.

Information on the Company's other financial instruments is contained in other notes to the consolidated financial statements.

Earnings per share

Basic earnings per share are computed by dividing the earnings available for common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed using the treasury stock method whereby the weighted average number of common shares used in the basic earnings per share calculation is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued at the beginning of the period.

Use of estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2. Business acquisitions

2003

In 2003, the Company acquired four businesses (2002 – four businesses). All of these acquisitions have been accounted for using the purchase method, and accordingly, the consolidated financial statements include the results of operations of the acquired businesses from the dates of the acquisition. The purchase price has been allocated to the assets acquired and the liabilities assumed based on management's best estimate of fair values.

The purchase price allocation of the net assets acquired and consideration given is summarized below:

	Sigco Sun Products (a) $	Pro Organics Marketing Inc. (b) $	Other acquisitions (c) $	Total $
Net assets acquired:				
Non-cash working capital	4,217	855	708	5,780
Property, plant and equipment	6,429	818	2,117	9,364
Goodwill	–	3,196	1,627	4,823
Intangible assets – definite life	505	1,723	1,807	4,035
Future tax liability	–	(692)	(761)	(1,453)
Debt (including bank indebtedness)	(2,672)	(943)	(979)	(4,594)
	8,479	4,957	4,519	17,955
Consideration given:				
Cash paid on closing	7,543	4,957	2,723	15,223
Contingent consideration	253	–	–	253
Due to former shareholders	683	–	–	683
Common shares issued	–	–	821	821
Note payable	–	–	975	975
	8,479	4,957	4,519	17,955

(a) Sigco Sun Products

On November 12, 2003, the Company completed the acquisition of the business and certain net assets of Sigco Sun Products Inc. (Sigco) of Breckenridge, Minnesota for total consideration of $8,479 including transaction costs. An additional $1,347 of contingent consideration may be payable if certain predetermined profit targets are achieved by the acquired business during the period January 1, 2004 to December 31, 2008 and will be recorded as goodwill when the amount and outcome of this contingency becomes determinable.

Sigco is a worldwide supplier of sunflower products and is fully integrated from the sale of sunflower seed to farmers through processing the contracted crop into finished in-shell and kernel sunflower products. The Company operates four facilities located in Minnesota, North Dakota and Kansas. Sigco markets its non-genetically modified sunflower products throughout the United States and to international markets in Europe, Asia and the Americas. The acquisition builds on the Company's vertically integrated model from seed to table and diversifies the grain products that the Company sells.

(b) Pro Organics Marketing Inc.

On October 10, 2003, the Company acquired all of the outstanding shares of Pro Organics Marketing Inc. (Pro Organics) and related companies for cash consideration of $4,957 including transaction costs. An additional $964 of contingent consideration may be payable to the former shareholders if certain predetermined targets are achieved during the period of January 1, 2004 to December 31, 2006 and will be recorded as additional goodwill when the amount and outcome of this contingency becomes determinable.

Pro Organics is a leading distributor of certified organic fresh foods in Canada with distribution facilities located in Vancouver, Toronto and Montreal. Along with Wild West and Simply Organic, both acquired in 2002, Pro Organics gives the Company a dominant market share of the certified organic fresh foods market in Canada.

(c) Other acquisitions:

Kettle Valley Dried Fruit Ltd.

On May 1, 2003, the Company acquired all of the outstanding shares of Kettle Valley Dried Fruit Ltd. (Kettle Valley) and its related companies for cash consideration of $873, a note payable of $975 and issuance of the Company's shares valued at $821 for total consideration of $2,669.

Kettle Valley produces natural and organic fruit bars and fruit leathers with an apple base and markets these products under the Kettle Valley Real Fruit Snack and Frunola brands. The Company operates two production facilities in Summerland, British Columbia, (B.C.) the heart of the B.C. apple growing district, and has constructed a third plant in the State of Washington, the center of the apple growing region of the Western U.S. The acquisition of this business is in line with the Company's strategy to expand the natural and organic food business in Canada and enter the healthy convenience foods market, a fast growing sector for natural or organic products.

Sonne Labs Inc.

On December 1, 2003, the Company acquired all of the outstanding shares of Sonne Labs Inc. (operating as Dakota Gourmet) for cash consideration of $1,850 including acquisition costs. In addition, contingent consideration of $750 may be payable if certain predetermined profit targets are achieved by the business from January 1, 2004 to December 31, 2007 and will be recorded as additional goodwill when the amount of this contingency becomes determinable.

Dakota Gourmet is focused on the manufacture of innovative natural and organic snack foods using soy, corn and sunflower ingredients. These products are sold under the Dakota Gourmet brand and are also produced for private label customers. This acquisition will expand the Company's presence in the healthy convenience foods market and further supports the Company's strategy to grow its natural and organic product offering in this food sector.

2002

The net assets acquired relating to business acquisitions completed in 2002 and the consideration given are summarized below:

	Opta Food Ingredients, Inc. (a) $	Other acquisitions (b) $	Total $
Net assets acquired:			
Cash	7,611	(188)	7,423
Short-term investments	2,038	–	2,038
Non-cash working capital	5,580	49	5,629
Property, plant and equipment	5,020	410	5,430
Goodwill	–	1,570	1,570
Definite life intangibles	–	220	220
Future income tax asset	10,056	–	10,056
Long-term debt	(1,705)	(258)	(1,963)
	28,600	1,803	30,403
Consideration given:			
Cash paid on closing	26,729	1,498	28,227
Contingent consideration	–	305	305
Due to former shareholders	1,871	–	1,871
	28,600	1,803	30,403

(a) **Opta Food Ingredients, Inc.**

On December 4, 2002, the Company completed a cash tender offer for the outstanding common shares of Opta Food Ingredients, Inc. (Opta). Approximately 92.6% of the outstanding common shares were tendered for $2.50 per share in cash in accordance with the tender offer. On December 18, 2002 the Company merged Opta with Stake Acquisition Corp, a wholly owned subsidiary. As a result of this merger, the remaining 7.4% of the outstanding common shares of Opta were converted to a right to receive $2.50 per share in cash from the Company, amounting to $1,871. This amount was disbursed in 2003.

Now part of the SunOpta Ingredients Group, Opta was a leading innovator, manufacturer and marketer of proprietary food ingredients that improve the nutritional content, healthfulness, texture and taste of its customers' food products. Opta was also the world's largest supplier of oat fiber to the food industry.

(b) **Other acquisitions:**

Simply Organic Co. Ltd.

On December 1, 2002, the Company acquired 100% of the outstanding common shares of Simply Organic Co. Ltd. for cash consideration of $187. In addition, contingent consideration of $160 is payable and will be paid over the next two fiscal years. The full amount of contingent consideration has been accrued at December 31, 2002.

Simply Organic Co. Ltd. is an Ontario, Canada-based distributor of certified organic food products, distributed throughout much of Ontario to mass market and natural food retail outlets. As of December 31, 2003, Simply's operations have been merged with the recently acquired Pro Organic's Toronto operations.

Wild West Organic Harvest Co-operative Association

On November 1, 2002, the Company acquired 100% of the outstanding common shares of 632100 B.C. Ltd., successor to Wild West Organic Harvest Co-Operative Association (Wild West) for cash consideration of $889. In addition, contingent consideration of $144 may be payable if certain predetermined profit targets are achieved by the acquired business. The full amount of contingent consideration was accrued at December 31, 2002.

Wild West is a British Columbia, Canada-based distributor of certified organic and natural food products throughout Western Canada to mass market and natural food retail outlets.

International Materials

On November 1, 2002, Virginia Materials purchased the remaining 49% of the outstanding common shares of International Materials, for cash consideration of $125.

International Materials produces industrial garnets as a by-product from a mining operation and processes these garnets for sale to the water filtration, water jet cutting and abrasives markets.

Organic Kitchen

On July 2, 2002, the Company acquired certain assets and the businesses of Organic Kitchen Inc. and Cloud Mountain Inc. (together forming Organic Kitchen). Consideration consisted of $297 paid in cash on closing. In addition, the Company will pay 10% of the pre-tax profits earned to December 31, 2005, up to a maximum of $1,268. This contingent consideration will be recorded as an increase to goodwill when the amount of the contingency is determinable. No contingent consideration was paid in 2003 (2002 – $nil).

The two companies form an integrated unit which sources, blends and supplies proprietary organic feeds to organic poultry and other meat producers. The companies then partner with organic processors who package poultry and other meat products and distribute to mass marketers under private label or the Organic Kitchen brand.

Virginia Materials

On October 31, 2001, the Company's wholly owned subsidiary, Virginia Materials Inc. acquired certain assets of Virginia Materials and Supplies, Inc. including inventory, equipment and other long-term assets as well as 51% of the outstanding common shares of International Materials and Supplies, Inc. (International Materials) for cash consideration, including acquisition costs of $1,743, contingent consideration and deferred purchase consideration, consisting of the Company's purchase of the vendor's inventory at prices above fair market value. At the time of acquisition, the Company agreed to pay 50% of the profits for a two-year period from the date of the acquisition. The vendor's share of profits was considered contingent consideration. During 2002, the Company amended the arrangement with the vendor of Virginia Materials and paid $50 per month for the period January 1, 2003 to October 31, 2003 in lieu of 50% of profits. During 2002 and 2003, the deferred purchase consideration was also adjusted to reflect revised estimates of the amount of inventory remaining to be purchased. This resulted in an increase to goodwill of $248 which was recorded during 2003.

Virginia Materials is a supplier of abrasives to the shipbuilding and repair industry. It has a production facility located in Norfolk, Virginia. Virginia Materials also recycles spent abrasives which are used in the production of cement and converts aluminium smelting waste into a roofing and abrasive product.

3. Note receivable

Prior to the Company's acquisition of Northern Food & Dairy Inc. (Northern) on September 15, 2000, Northern signed an agreement with a major customer to supply a natural food product. This agreement required Northern to expand its food processing plant to the customer's specifications. In accordance with the terms of the agreement, the customer paid Northern 36 monthly instalments of $119 commencing October 2000 and as at December 31, 2003 the outstanding receivable was fully collected. The agreement also requires Northern to provide the customer with a product rebate beginning three years after production at the new plant commences until $1,720 is repaid. During 2003, $75 of the product rebate has been repaid.

Upon acquisition of Northern on September 15, 2000, the Company assigned fair values of $3,425 to the note receivable and $1,075 to the product rebate payable based on the cash flows associated with these financial instruments discounted at a rate of 9.5%.

During 2003, Northern received payments of $1,071 (2002 – $1,425) and recorded imputed interest income of $37 (2002 – $156) on the note receivable. Imputed interest expense of $147 (2002 – $121) was recorded on the product rebate payable.

4. Inventories

	2003 $	2002 $
Raw materials	8,437	7,859
Finished goods	24,525	13,628
Grain	1,816	1,502
	34,778	22,989

Grain inventories consist of the following:		
Company owned grain	1,491	1,460
Unrealized gain (loss) on		
Sale and purchase contracts	153	(79)
Future contracts	172	121
	1,816	1,502

5. Property, plant and equipment

			2003
	Cost $	Accumulated amortization $	Net $
Land and buildings	22,513	2,321	20,192
Machinery and equipment	34,536	13,903	20,633
Office furniture and equipment	4,300	1,281	3,019
Vehicles	1,055	138	917
	62,404	17,643	44,761

			2002
	Cost $	Accumulated amortization $	Net $
Land and buildings	17,403	1,033	16,370
Machinery and equipment	24,904	10,714	14,190
Office furniture and equipment	1,546	640	906
Vehicles	575	28	547
	44,428	12,415	32,013

Included in machinery and equipment is equipment under capital lease with a cost of $457 (2002 – $490) and net book value of $330 (2002 – $277). Included in office furniture and equipment is $807 of capitalized computer software, which is currently not being amortized as it has not been placed into use.

Assets held for sale

Assets held for sale include the former Opta head office located in Bedford, Massachusetts, SunOpta Ingredients St. Thomas, Ontario processing facility (both acquired in the acquisition of Opta – note 2) and Opta Minerals' Hamilton, Ontario processing and distribution facility.

(a) **Former Opta Facilities**

Assets held for sale include the former Opta head office located in Bedford, Massachusetts, which has a book value at December 31, 2003 of $4,800 (December 31, 2002 – $4,800). During the year, the Company entered into an option agreement to sell the building at a price of $4,850. The option was granted for one year and expires on September 22, 2004.

As per the terms of the option agreement, as of December 31, 2003, Opta has received $1,260 in non-refundable option deposits which will be applied to the sale price at closing should the option be exercised. Opta will continue to receive non-refundable monthly option payments of $30, which will not be applied to the purchase price and monthly option deposits of $20, which will be applied to the purchase price if exercised. The Company has recorded $1,260 in customer and other deposits and option payments of $90 have been included in other income in 2003.

Upon sale of the building it is the Company's intent to lease a portion of the building from the new owners.

Subsequent to year end the Company announced the closure of the SunOpta Ingredients St. Thomas, Ontario Canada facility and has classified this building as an asset held for sale. The book value as at December 31, 2003 was $193 (December 31, 2002 – $220). The estimated realizable value exceeds this amount at December 31, 2003.

(b) **Opta Minerals**

In January 2003, the Company relocated its production operation from Hamilton, Ontario to its existing facility in Waterdown, Ontario and as a result classified the land and building as an asset held for sale. At December 31, 2003 the land and building has a book value of $1,014. Subsequent to year end, the facility was sold for proceeds of $1,041.

6. Goodwill and intangibles

	2003 $	2002 $
Goodwill – at cost, less accumulated amortization of $985 (2002 – $985)	18,182	12,212
Trademarks and other intangibles with a definite life – at cost, less accumulated amortization of $122 (2002 – $6)	6,798	2,705
Patents and licenses, net	104	75
	25,084	14,992

	Goodwill	Intangibles	Patents and licenses	Total
	$	$	$	$
Balance as at December 31, 2002	12,212	2,705	75	14,992
Additions during the year	5,071	4,035	16	9,122
Amortization	–	(116)	(30)	(146)
Impact of foreign exchange	899	174	43	1,116
Balance as at December 31, 2003	18,182	6,798	104	25,084

The Company estimates that aggregate amortization expense associated with definite life trademarks and other intangibles will be $726 for 2004 through 2007, and $702 in 2008.

7. Other assets

	2003	2002
	$	$
Pre-operating costs, net of accumulated amortization of $790 (2002 – $432)	–	358
Deferred financing costs, net of accumulated amortization of $727 (2002 – $201)	436	619
Other	54	103
	490	1,080

8. Long-term debt and banking facilities

	2003	2002
	$	$
Term loan (a)	19,800	13,900
Tender facility (b)	–	15,186
Convertible debenture (c)	–	4,697
Other long-term debt (d)	5,236	2,873
	25,036	36,656
Less: current portion	(3,840)	(11,557)
	21,196	25,099

(a) In March 2003 the Company amended and restated its credit agreement which syndicated the financing arrangement to a group of banks including existing lenders and increased the term loan by $7,800 to $21,700. In addition, the U.S. line of credit facility was increased by $4,000 to $9,000. The Company used the incremental proceeds on the term loan, drew on the credit facility to the extent of $3,500 and utilized $3,886 of cash on hand to repay the tender facility obtained to finance the acquisition of Opta (note 2).

In May 2003 and as part of the acquisition of Kettle Valley, the Company amended its facility and increased the Canadian line of credit facility to CDN $7,500 from CDN $5,000.

In December 2003, the Company further amended its credit agreement and extended the term loan to June 2005. The Company fully intends to renew this term loan prior to its maturity however, for financial statement purposes the principal payments have been categorized as due in 2005. The amended and restated agreement has the following components;

i) Term loan

Principal payable quarterly based on a seven year amortization. The term loan matures June 2005 and is renewable at the option of the lender and the Company. As at December 31, 2003, $19,800 (2002 – $13,900) remained outstanding.

Interest on the term loan is payable at the borrower's option at U.S. dollar base rate or U.S. LIBOR plus a margin based on certain financial ratios of the Company (2.2% as at December 31, 2003 and 3.0% as at December 31, 2002).

ii) $5,785 (CDN $7,500) line of credit facility

Interest on borrowings under this facility accrues at the borrower's option based on various reference rates including Canadian or U.S. bank prime, or Canadian bankers' acceptances, plus a margin based on certain financial ratios. As at December 31, 2003 $nil (2002 – $494) of this facility has been utilized and $802 has been committed through letters of credit as itemized in note 14 (d).

iii) $9,000 line of credit facility

Interest on borrowings under this facility accrues at the borrower's option based on various reference rates including U.S. bank prime, or LIBOR, plus a margin based on certain financial ratios. As at December 31, 2003 $nil (2002 – $3,963) of this facility has been utilized.

The term loan and the Canadian and U.S. line of credit facilities described above are collateralized by a first priority security against substantially all of the Company's assets in both Canada and the United States.

(b) On December 4, 2002, the Company entered into a tender financing arrangement with its principal lender to facilitate the Company's tender offer to purchase all of the outstanding common shares of Opta (note 2).

The tender facility had a maximum borrowing base of $17,000. As at December 31, 2002, $15,186 of this facility had been utilized. Interest on borrowings under this facility accrues at the borrower's option based on various reference rates including the bank's prime plus 100 basis points, or LIBOR plus 200 basis points (3.3% as at December 31, 2002). In March 2003, the tender facility was repaid with cash and the incremental proceeds from the amended term loan and line of credit facilities, as described above.

(c) On December 4, 2002, to finance the acquisition of Opta, the Company issued a $5,000 convertible debenture, with interest payable quarterly at 5.5% per annum. In conjunction with the issuance of the convertible debenture, the Company issued 250,000 share purchase warrants with an exercise price of $3.25. The warrants and the convertible right inherent in the debenture were fair valued at $317, as at December 4, 2002, and have been classified as a component of shareholders' equity. As a result, the fair value attributed to the debt component of the convertible debenture was $4,683. The debenture was convertible at the option of the holder at any time after November 30, 2003, or earlier under certain circumstances at the conversion price of $3.00 per share. The effective interest rate on the debenture was 9.6%.

On August 29, 2003, the Company redeemed the convertible debenture at the face value of $5,000. As a result of the early redemption a loss on extinguishment of debt of $183, representing the accelerated interest accretion was recorded and has been recorded as interest expense. The warrants remain outstanding and have an expiry date of November 30, 2004.

(d) Other long-term debt consists of the following:

	2003 $	2002 $
Note payable (Cdn $1,088) issued to the former shareholders of Kettle Valley as part of the acquisition (note 2), interest at 5% payable in ten semi-annual instalments, uncollateralized.	816	–
Term loan assumed on the acquisition of Sigco (note 2) payable in ten semi annual instalments of $244. Interest payable monthly at LIBOR + 1.95% (December 31 – 3.15%), collateralized by the property and equipment of Sigco.	2,440	–
Term loan issued to Oracle Credit Corp. on the purchase of a software license agreement. Interest at 2.0% payable in eight quarterly instalments.	1,107	–
Other term debt with a weighted average interest rate of 2.4%, due in varying instalments through July 2007.	802	845
Capital lease obligations due in monthly payments through 2006, with a weighted average interest rate of 8.5%.	71	323
Term loan assumed on acquisition of Opta, payable in quarterly instalments of $27 including interest at 7.4% due June 2003, collateralized by certain assets in the United States.	–	1,705
	5,236	2,873

(e) The loans and capital leases detailed above require payments as follows:

	$
2004	3,840
2005	18,934
2006	793
2007	764
2008 and thereafter	705
	25,036

(f) Interest expense on long-term debt for the year ended December 31, 2003 was $1,664 (December 31, 2002 – $1,292).

(g) The fair value of long-term debt as at December 31, 2003 is considered not to be materially different from the carrying amount.

9. Long-term payables

	2003 $	2002 $
Product rebate payable *(note 3)*	1,402	1,330
Deferred purchase consideration	65	667
Preference shares of subsidiary companies	144	291
Payable to former shareholders of acquired companies	623	2,675
Other	97	93
	2,331	5,056
Less: Current portion	(740)	(3,551)
	1,591	1,505

10. Capital stock

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of special shares without par value.

The following is a summary of changes in capital stock:

	Warrants and rights		Common shares		Total
	Number	$	Number	$	$
Balance as at December 31, 2000	500,000	19	28,186,972	14,239	14,258
Shares and warrants issued to acquire First Light Foods (a)	35,000	8	833,333	796	804
Options exercised (b)	–	–	999,425	1,037	1,037
April 2001 private placement (c)	705,750	507	1,411,498	1,157	1,664
May 2001 private placement (c)	1,200,000	762	2,400,000	3,462	4,224
September 2001 private placement (c)	2,250,000	1,650	3,000,000	3,901	5,551
December 2001 private placements (c)	–	–	4,250,000	8,337	8,337
Warrants issued (c)	478,500	–	–	–	–
Balance as at December 31, 2001	5,169,250	2,946	41,081,228	32,929	35,875
Warrants exercised (a)	(656,150)	(430)	656,150	1,904	1,474
Warrants issued (a)	250,000	263	–	–	263
Warrants repurchased (a)	(60,000)	(43)	–	–	(43)
Options exercised (b)	–	–	246,740	397	397
Convertible right associated with convertible debenture (a)	–	54	–	–	54
Balance as at December 31, 2002	4,703,100	2,790	41,984,118	35,230	38,020
Warrants exercised (a)	(1,095,750)	(438)	1,095,750	2,299	1,861
Compensation and related warrants exercised (a)	(366,000)	–	366,000	761	761
Shares issued to acquire Kettle Valley (a)	–	–	196,809	821	821
August 2003 public offering (c)	–	–	7,500,000	51,004	51,004
August 2003 private placement (c)	–	–	285,714	2,000	2,000
Options exercised (b)	–	–	1,276,705	2,257	2,257
Convertible right (a)	–	(54)	–	–	(54)
Balance as at December 31, 2003	3,241,350	2,298	52,705,096	94,372	96,670

(a) **Warrants**

During 2003, 1,461,750 warrants including compensation warrants granted as part of private placements completed in 2001 were exercised at prices ranging from $1.50 to $2.40 for net proceeds of $2,622; (2002 – 656,150 warrants, $1,474; 2001 – nil warrants, $nil proceeds).

On May 1, 2003, the Company issued 196,809 common shares at a price of $4.17 per common share, in the acquisition of Kettle Valley *(note 2).*

In conjunction with the convertible debenture issued in 2002 (note 8) the Company issued 250,000 warrants with a fair value of $263, an exercise price of $3.25, and an expiry date of November 30, 2004. The convertible right issued in conjunction with the convertible debenture has a fair value of $54 and expired during the year, as the debenture was repaid prior to redemption.

On April 2, 2002, 60,000 shareholder warrants with an exercise price of $1.75 per unit, were repurchased by the Company for a net cost of $39.

During February, 2001 in respect of the acquisition of Jenkins and Gournoe Inc. the Company issued 833,333 common shares at a price of $0.96 per common share and 35,000 warrants exercisable at $1.70 for five years to February 2006, at a price of $0.23 per warrant.

(b) **Employee/director option plans**

Details of changes in employee/director stock options are as follows:

	2003	2002	2001
Outstanding at beginning of year	2,201,260	2,050,700	1,811,325
Granted	1,152,450	415,100	1,253,800
Exercised	(1,276,705)	(246,740)	(999,425)
Retracted	(49,828)	(17,800)	(15,000)
Outstanding options at year end	2,027,177	2,201,260	2,050,700
Exercisable options at year end	787,907	1,613,480	1,598,305
Weighted average fair value of options granted during the year	$ 2.89	$ 1.51	$ 0.41

The Company grants options to employees and directors from time to time under employee/director stock option plans. The Board of Directors of the Company has authorized and approved 5,150,000 (2002 – 5,150,000) shares to be made available for the stock option plans. The following is a summary of options granted during the year.

Grant date	Expiry date	Exercise price	Number of options	Number of options vested at Dec 31, 2003
January 02, 2003	January 02, 2008	$ 3.06	10,000	2,000
March 20, 2003	March 20, 2008	$ 3.72	398,750	79,750
May 01, 2003	May 01, 2008	$ 5.00	12,000	2,400
May 07, 2003	May 07, 2008	$ 5.24	158,700	31,740
August 13, 2003	August 13, 2008	$ 7.49	62,400	12,480
September 29, 2003	September 29, 2008	$ 9.11	90,000	18,000
November 04, 2003	November 04, 2008	$ 9.90	242,900	48,580
December 10, 2003	December 10, 2008	$ 7.42	177,700	37,990
			1,152,450	232,940

Employee/director stock options granted by the Company contain an exercise price, which is equal to the closing market price of the shares on the day prior to the grant date. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to capital stock.

During the year the Company granted 1,152,450 options which vest as follows: 232,940 options vested in 2003, 232,503 vest per annum in 2004 to 2006 and 222,002 in 2007. During 2003, 1,276,705 (2002 – 246,740; 2001 – 999,425) options were exercised and the equivalent number of common shares were issued for net proceeds of $2,257 (2002 – $397; 2001 – $1,037).

Details of employee/director stock options as at December 31, 2003 are as follows:

Expiry date	Exercise price range	Vested outstanding options	Weighted average price	Total outstanding options	Weighted average price
2004	$ 1.06 to $ 1.86	50,437	$ 1.34	50,437	$ 1.34
2005	$ 1.06 to $ 1.38	256,200	$ 1.17	317,100	$ 1.18
2006	$ 1.53 to $ 2.10	141,350	$ 1.84	227,150	$ 1.84
2007	$ 2.15 to $ 3.07	148,100	$ 2.84	363,560	$ 2.79
2008	$ 3.06 to $ 9.90	191,820	$ 6.97	1,068,930	$ 6.64
		787,907	$ 3.03	2,027,177	$ 4.56

The weighted average remaining contractual life for vested outstanding options and total outstanding options is 3.2 and 4.0 years respectively.

On January 7, 2000, based on Board of Director approval all options with an option price in excess of $1.06 were repriced to $1.06. In addition, on March 5, 2000, the Board of Directors approved a resolution extending the exercise period of 304,375 options from March 10, 2001 to December 31, 2003.

(c) Equity offerings and private placements

On August 28, 2003, the Company issued 7,500,000 common shares at a price of $7.00 per common share, as part of a public offering for gross proceeds of $52,500. The Company incurred $1,496 in share issuance costs, (net of tax) in relation to this offering.

On August 29, 2003, the Company issued 285,714 common shares pursuant to a private placement with a significant shareholder, for proceeds of $2,000.

In 2001, the Company completed four private placements. The Company issued 11,061,498 common shares and 4,155,750 warrants to acquire 4,155,750 common shares for total proceeds of $19,776 net of issuance costs. The following is a summary of the warrants issued:

Expiry date	Exercise price	Warrants	$
March 31, 2004	$ 1.75	705,750	507
March 31, 2004	$ 2.40	1,200,000	762
September 30, 2004	$ 2.40	2,250,000	1,650
		4,155,750	2,919

In addition, pursuant to the 2001 private placement agreements, the Company granted to their agents:

i) Compensation warrants exercisable until June 8, 2003 to purchase 144,000 option units at $2.00 per unit. If exercised in full, the Company would issue 144,000 common shares and 72,000 warrants exercisable at $2.40 to acquire 72,000 common shares, which expire on March 31, 2004.

During 2003, all of the above 144,000 compensation warrants were exercised and 216,000 common shares were issued for net proceeds of $461.

ii) Compensation warrants exercisable until September 28, 2003 to purchase 150,000 option units at $2.00 per unit. If exercised in full, the Company will issue 150,000 common shares and 112,500 warrants exercisable at $2.40 to acquire 112,500 common shares, which expire on September 30, 2004.

During 2003, the above 150,000 compensation warrants were exercised and 150,000 common shares were issued for net proceeds of $300. The above 112,500 compensation warrants remain outstanding at year end.

(d) During 1997, the shareholders of the Company agreed to reduce the stated capital account of the Company's common shares by $15,712 through the elimination of a deficit.

11. Income taxes

The Company's effective income tax rate on consolidated earnings has been determined as follows:

	2003	2002	2001
Canadian statutory income tax rate	36.1%	39.0%	42.0%
Increase (decrease) by the effects of:			
Change in valuation allowance	(24.8%)	(13.2%)	(25.8%)
Differences in foreign, capital gains, manufacturing and processing and future income tax rates	(2.1%)	(3.7%)	(1.5%)
Other	(0.2%)	(12.5%)	73.9%
Effective income tax rate	9.0%	9.6%	88.6%

	$	$	$
Net earnings before income taxes	9,556	4,167	166
Provision for income taxes	859	401	147

The components of the provisions for Canada and U.S. income taxes are shown below:

	2003 $	2002 $	2001 $
Current (benefit) expense:			
Canada	370	(1,094)	(85)
United States	433	110	374
	803	(984)	289
Future (benefit) expense:			
Canada	50	(717)	2
United States	6	2,102	(144)
	56	1,385	(142)
Provision for income taxes	859	401	147

Future income taxes of the Company are comprised of the following:

	2003 $	2002 $
Differences in property, plant and equipment basis	(106)	4,946
Non-capital losses	7,291	6,443
Tax benefit of scientific research expenditures	2,783	2,112
Tax benefit of costs incurred during share issuance *(note 10)*	1,281	
Other	684	613
	11,933	14,114
Valuation allowance	(1,738)	(4,107)
	10,195	10,007

The Company has approximately $5,245 and $1,000 (2002 – $4,373 and $1,000) in Canadian and U.S. scientific research expenditures respectively, which can be carried forward indefinitely to reduce future years' taxable income. The Company also has approximately $nil (2002 – $120) in Canadian scientific research investment tax credits and approximately $870 (2002 – $870) in U.S. state scientific research investment tax credits which will expire in approximately 12 years.

The Company has Canadian and U.S. non-capital loss carry-forwards of approximately $7,404 and $32,500 respectively, as at December 31, 2003 (2002 – $2,116 and $34,900). The Company also has State loss carry-forwards of approximately $5,800 as of December 31, 2003 (2002 – $8,400). The amounts are available to reduce future federal and provincial/state income taxes. Non-capital loss carry-forwards attributable to Canada expire over varying amounts over the next seven years while non-capital loss carry-forwards attributable to the U.S. expire in varying amounts over the next 17 years.

A valuation allowance of $1,738 (2002 – $4,107) has been recorded to reduce the net benefit recorded in these consolidated financial statements related to the capital and non-capital loss carry-forwards. The valuation allowance has decreased as a result of greater certainty associated with the ultimate realization of these future tax assets.

12. Supplemental cash flow information

	2003 $	2002 $	2001 $
Changes in non-cash working capital, net of businesses acquired:			
Accounts receivable – trade	(3,484)	(4,712)	315
Inventories	(4,976)	(3,086)	(3,383)
Prepaid expenses and other current assets	(1,187)	579	(404)
Income taxes recoverable	(1,686)	–	–
Accounts payable and accrued liabilities	(2,139)	1,271	(135)
Customer deposits	1,357	(969)	533
	(12,115)	(6,917)	(3,074)
Cash paid for:			
Interest	1,698	1,632	1,789
Income taxes	2,099	1,373	405

13. Related party transactions and balances

In addition to transactions disclosed elsewhere in these consolidated financial statements, the Company entered into the following related party transactions:

(a) Included in other current assets as at December 31, 2003 is $25 (2002 – $75) due from officers/directors of the Company.

(b) Pursuant to the Pro Organics acquisition the Company has leased Pro Organics Vancouver, British Columbia warehouse and administration facility from the former owners who still remain as executive officers of Pro Organics. The lease is at market rates and is for a five year term with two five year renewal periods.

(c) Pursuant to the acquisition of Sigco the Company has a receivable of $310 as at December 31, 2003 from the selling company which is controlled by the president of Sigco, for certain accounts receivable collected on behalf of the Company. This amount has been included in prepaid expenses and other current assets and was fully discharged subsequent to year end.

14. Commitments and contingencies

(a) Sunrich Inc. a subsidiary of the Company has commenced a suit against a supplier for failure to adhere to the terms of a contract. The Company and its legal counsel believe that this claim has merit. The Company has ceased co-packing arrangements under the existing contract and has commenced packing under separate arrangements. It cannot however be determined if there will be any recovery by the Company at this time and the Company is expensing the costs of pursuing this suit as incurred. The supplier has counter-sued the Company for breach of contract. The Company believes this suit is unfounded. Other than this action, the Company has not been and is not currently a party to any other material litigation.

(b) The Company believes, with respect to both its operations and real property that it is in material compliance with current environmental laws. Based on known existing conditions and the Company's experience in complying with emerging environmental issues, the Company is of the view that future costs relating to environmental compliance will not have a material adverse effect on its financial position, but there can be no assurance that unforeseen changes in the laws or enforcement policies of relevant governmental bodies, the discovery of changed conditions on the Company's real property or in its operations, or changes in use of such properties and any related site restoration requirements, will not result in the incurrence of significant costs. No provision has been made in these consolidated financial statements for these future costs since such costs, if any, are not determinable at this time.

(c) In the normal course of business, the Food Group holds grain for the benefit of others. The Company is liable for any deficiencies of grade or shortage of quantity that may arise in connection with such grain.

(d) Letters of credit

i) An irrevocable letter of credit for $578 has been placed with the Ontario Ministry of Environment and Energy as a security deposit for the Certificate of Approval granted to the Company for certain recycling activities. This letter of credit must remain in place indefinitely as a condition of the Certificate of Approval.

ii) An irrevocable letter of credit for $195 has been placed with the Commonwealth of Virginia Department of Environmenta Qualities as a security deposit for the Certificate of Approval granted to the Company for certain recycling activities. This letter of credit must remain in place indefinitely as a condition of the Certificate of Approval.

iii) Additional letters of credit totalling $29 have been placed with third parties as security on transactions occurring in the ordinary course of operations.

(e) Real property lease commitments

The Company has entered into various leasing arrangements which have fixed monthly rents that are adjusted annually each year for inflation.

Commitments under operating leases, principally for distribution centers, warehouse and equipment, are as follows:

	$
2004	2,930
2005	2,625
2006	2,289
2007	1,813
2008 and thereafter	2,001
	11,658

In the years 2003, 2002 and 2001, minimum rents, including immaterial contingent rents and sublease rental income, were $1,766, $921 and $604, respectively.

15. Earnings per share

The calculation of basic earnings per share is based on the weighted average number of shares outstanding. Diluted earnings per share reflect the dilutive effect of the exercise of warrants and options as disclosed in note 10. The number of shares for the diluted earnings per share was calculated as follows:

	2003	2002	2001
Weighted average number of shares used in basic earnings per share	46,094,627	41,547,302	32,220,352
Dilutive potential of the following			
Employee/director stock options	840,085	765,034	150,191
Warrants	2,004,201	747,459	85,392.
Weighted average number of shares used in diluted earnings per share	48,938,913	43,059,795	32,455,935
Net earnings for the year	$ 8,697	$ 3,766	$ 19
Earnings per share:			
Basic	$ 0.19	$ 0.09	$ 0.00
Diluted	$ 0.18	$ 0.09	$ 0.00

Options to purchase 573,000 common shares have been excluded from the calculations of diluted earnings per share due to their anti-dilutive effect.

16. Segmented information

Industry segments

The Company operates in three industry segments: (a) the SunOpta Food Group, processes, packages and distributes a wide range of natural and organic food products via its vertically integrated operations with a focus on soy, natural and organic food products. During the year the Company expanded its reporting structure and has further defined its segments into Grains and Soy Products Group, SunOpta Ingredients Group and Packaged and Distributed Products Group (which combined form the Food Group). The addition of these segments better reflects how management views and manages the business and is aligned with the Company's vertically integrated model; (b) Opta Minerals (formally known as Environmental Industrial Group), processes, distributes, and recycles industrial minerals; and (c) the StakeTech Steam Explosion Group, markets proprietary steam explosion technology systems for the pulp and food processing industries. The Company's assets, operations and employees are located in Canada and the United States.

The Company has presented segmented information under the new reporting structure for the current year; however, due to reporting constraints it is considered impractical to do so for 2002 and 2001 results. The Company has also revised its reporting of segmented net earnings (loss) to net earnings (loss) before interest and taxes but inclusive of allocated corporate management fees, as this is more aligned with how management views its operations. SunRich Food Group Inc., the holding company of U.S. operations, has also been reclassified from the Food Group segment to Corporate. For 2002 and 2001 the Company has restated its segments to include the effect of the Sunrich Food Group and management fee reclassifications.

				2003
	SunOpta Food Group $	Opta Minerals Group $	StakeTech Steam Explosion Group and Corporate $	Consolidated $
External revenues by market				
U.S.	134,964	9,446	461	144,871
Canada	30,754	15,202	–	45,956
Other	8,089	183	–	8,272
Total revenues from external customers	173,807	24,831	461	199,099
Segment net earnings (loss) before interest expense and income taxes	10,536	2,580	(1,618)	11,498
Interest expense	–	–	–	1,942
Provision for income taxes	–	–	–	859
Net earnings	–	–	–	8,697
Identifiable assets	117,346	26,363	30,047	173,756
Amortization	3,889	952	643	5,484
Goodwill	12,062	6,120	–	18,182
Expenditures on property, plant and equipment	5,698	796	982	7,476

The SunOpta Food Group has the following segmented reporting:

				2003
	Grains and Soy Products Group $	SunOpta Ingredients Group $	Packaged and Distributed Products Group $	SunOpta Food Group $
External revenues by market				
U.S.	57,499	42,756	36,043	136,298
Canada	439	1,488	27,333	29,260
Other	2,384	5,705	160	8,249
Total revenues from external customers	60,322	49,949	63,536	173,807
Segment net earnings before interest expense and income taxes	2,745	4,797	2,994	10,536
Identifiable assets	36,588	46,140	34,618	117,346
Amortization	744	1,656	1,489	3,889
Goodwill	1,293	3,893	6,877	12,062
Expenditures on property, plant and equipment	987	2,874	1,837	5,698

	Food Group	Opta Minerals Group	StakeTech Steam Explosion Group and Corporate	Consolidated
2002				
	$	$	$	$
External revenues by market				
U.S.	89,088	8,305	157	97,550
Canada	2,936	15,902	–	18,838
Other	4,295	215	–	4,510
Total revenues from external customers	96,319	24,422	157	120,898
Segment net earnings (loss) before interest expense and income taxes	4,556	2,864	(1,840)	5,580
Interest expense	821	320	272	1,413
Provision for (recovery of) income taxes	1,394	1,115	(2,108)	401
Net earnings (loss)	3,203	1,741	(1,178)	3,766
Identifiable assets	85,040	21,981	8,266	115,287
Amortization	2,995	861	274	4,130
Goodwill	6,692	5,520	–	12,212
Expenditures on property, plant and equipment	3,306	1,058	100	4,464

	Food Group	Opta Minerals Group	StakeTech Steam Explosion Group and Corporate	Consolidated
2001				
	$	$	$	$
External revenues by market				
U.S.	66,408	5,365	359	72,132
Canada	200	14,124	–	14,324
Other	3,365	1	–	3,366
Total revenues from external customers	69,973	19,490	359	89,822
Segment net earnings (loss) before interest expense and income taxes	1,655	836	(580)	1,911
Interest expense	1,423	291	31	1,745
Provision for (recovery of) income taxes	186	170	(209)	147
Net earnings (loss)	310	491	(782)	19
Identifiable assets	51,073	16,948	12,040	80,061
Amortization	2,889	705	112	3706
Goodwill	7,874	3,163	60	11,097
Expenditures on property, plant and equipment	2,590	1,290	27	3,907
Equity accounted investment	–	–	366	366

Geographic segments

	2003			2002		
	U.S.	Canada	Total	U.S.	Canada	Total
	$	$	$	$	$	$
Property, plant and equipment	34,540	10,221	44,761	29,568	7,465	37,033
Goodwill	9,926	8,256	18,182	9,158	3,054	12,212
Total assets	110,224	63,532	173,756	87,399	27,888	115,287

Customer concentration

The Company has one customer in the Food Group whose purchases were 13% of the Company's total revenue in 2003 (2002 – 16%).

17. United States generally accepted accounting principles differences

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) which conform in all material respects applicable to the Company with those in the United States (U.S. GAAP) during the periods presented, except with respect to the following:

Under U.S. GAAP, certain pre-operating costs of $nil incurred in the year ended December 31, 2003, (2002 – $276; 2001 – $32)), deferred in these financial statements would be expensed. Amortization of $358 in the year ended December 31, 2003, (2002 – $271; 2001 – $161) related to pre-operating costs would not have been expensed.

On March 11, 2002, the Company committed to grant certain employees 114,000 options to acquire 114,000 common shares at $2.15. These options were provided to employees contingent upon approval by the shareholders of the 2002 stock option plan. This approval was received on June 18, 2002. Under U.S. GAAP, the difference in stock price between the exercise price and the closing price the day immediately preceding the day of shareholders' approval is considered to be compensation expense. Accordingly, $62 would be recorded under U.S. GAAP in 2002 as stock option compensation expense.

During 2001, the Company repriced certain options. As a result, for the year ended December 31, 2003 – $nil (2002 – $nil; 2001 – $321) would be recognized as stock option compensation expense under U.S. GAAP.

In conjunction with the issuance of the convertible debenture described in notes 8 and 10 for Canadian GAAP purposes, the fair value of the convertible right was determined to be $54. For U.S. GAAP purposes, the value of the right was determined to be $383. For U.S. GAAP this amount has been measured and disclosed but would not be recorded until the option right became exercisable on November 30, 2003. As the convertible debenture was repaid prior to November 30, 2003 the value of the right under U.S. GAAP was not recorded. The Canadian GAAP accretion of $34 on the convertible debenture has not been recorded for U.S. GAAP purposes.

Effective January 1, 2002, the Company adopted the U.S. dollar as its reporting currency. Under Canadian GAAP historical results were restated using a translation of convenience, whereas under U.S. GAAP, the consolidated financial statements would be restated on a retroactive basis. The effect of this adjustment would not be material.

Accordingly, the following would have been reported under U.S. GAAP:

	2003 $	2002 $	2001 $
Net earnings for the year – as reported	8,697	3,766	19
Pre-operating costs amortized	358	271	161
Pre-operating costs capitalized	–	(276)	(32)
Accretion on convertible debenture	34	–	–
Stock option compensation expense	–	(62)	(321)
Tax effect of above items	(149)	2	(52)
Net earnings (loss) for the year – US. GAAP	8,940	3,701	(225)
Net earnings (loss) per share – U.S. GAAP – Basic	0.19	0.09	(0.01)
Net earnings (loss) per share – U.S. GAAP – Diluted	0.18	0.09	(0.01)
Shareholders' equity – as reported	119,947	49,527	43,500
Cumulative pre-operating costs, net of amortization, net of tax	–	215	212
Cumulative stock compensation expense	(416)	(416)	(354)
Shareholders' equity – U.S. GAAP	119,531	49,326	43,358

Comprehensive income

U.S. GAAP requires that a comprehensive income statement be prepared. Comprehensive income is defined as "The change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner events". It includes all changes in equity during a period, except those resulting from investments by owners and distribution to owners.The comprehensive income statement reconciles the reported net income to the comprehensive income.

The following is a comprehensive income statement (prepared in accordance with U.S. GAAP), which, under U.S. GAAP, would have the same prominence as other financial statements.

	2003 $	2002 $	2001 $
Net earnings (loss) for the year – U.S. GAAP	8,940	3,701	(225)
Currency translation adjustment	3,019	112	971
Comprehensive income for the year	11,959	3,813	746

Other U.S. GAAP disclosures

Changes in reserves

	2003 $	2002 $	2001 $
Allowance for doubtful accounts			
Balance, beginning of year	709	367	590
Additions charged to profit and loss, including effects of foreign exchange rate differences	892	450	162
Accounts receivable charged off, net of recoveries	(383)	(108)	(385)
Balance, end of year	1,218	709	367
Future income tax valuation allowance			
Balance, beginning of year	4,107	479	479
Additions (reductions) to valuation allowance	(2,369)	4,107	–
Adjustments to valuation allowance, including effects of foreign exchange rate differences	–	(479)	–
Balance, end of year	1,738	4,107	479

The following items are considered part of operating income:

	2003 $	2002 $	2001 $
Write-down of investment in Easton Minerals Limited	–	(366)	–
Gain on sale of assets (net of assets written off of $112)	21	285	51
	21	(81)	51

	2003 $	2002 $	2001 $
Accrued payroll	1,607	1,235	1,059

Proforma data *(Unaudited)*

Condensed proforma income statement, as if the acquisitions of Sigco Sun Products, Sonne Labs, Pro Organics, Kettle Valley occurred at the beginning of 2003 and the acquisitions of Opta, Wild West, Organic Kitchen and Simply Organic, had occurred at the beginning of 2002, is as follows:

	2003 $	2002 $
Revenue	239,320	214,135
Net earnings	9,275	4,016
Earnings per share		
Basic	0.20	0.10
Diluted	0.19	0.09

18. Subsequent events

(i) Business acquisition

On March 1, 2004 the Company announced the acquisition of Distribue-Vie Fruits & Legumes Biologigues Inc. (Distribue-Vie) of Montreal, Quebec for approximately $853 including acquisition costs. Contingent consideration may be payable to the former shareholders if certain predetermined targets are achieved during the period of April 1, 2004 to April 1, 2006.

Distribue-Vie specializes in the distribution of organic fresh foods with an emphasis on produce and serves the Quebec market along with geographic reach to Eastern Ontario and the Maritime provinces. Distribue-Vie had revenue in the past year of approximately $5,000. The company is a further addition to the Canadian organic and natural distribution group that the Company has formed over the last several years.

(ii) Assets held for sale

Subsequent to year-end the Company sold its Opta Minerals Hamilton facility for proceeds of $1,041 and announced the closure of its St. Thomas facility. These assets are classified as "Assets held for sale" at December 31, 2003 within the Consolidated Balance Sheet and are detailed further in Note 5.

Recent accounting developments

Effective January 1, 2004 the Company will adopt CICA 3870 which will require the Company to record stock compensation expense on options granted to employees. Under the transitional provisions of this new standard, the Company will record a charge through retained earnings representing the cumulative impact of stock options granted since January 2002 and will record an expense for existing and any new options over the remaining vesting period.

In April 2003, the FASB issued Statement No.149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (SFAS 149). SFAS 149 amends and clarifies reporting for derivative instruments. It is effective for contracts entered into or modified after June 30, 2003. The Company adopted this standard in fiscal year 2003. The adoption of this standard did not have a significant effect on the Company's consolidated financial statements.

In May 2003, the FASB issued Statement No.150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (FASB 150). The statement clarifies how issuers classify and measure certain instruments with characteristics of both liabilities and equity. It is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted this standard in fiscal year 2003. The adoption of this standard did not have a significant effect on the Company's consolidated financial statements.

In December 2003, the Financial Accounting Standards Board, ("FASB") issued Interpretation No.46R, "Consolidation of Variable Interest Entities." The objective of FIN 46 is to improve financial reporting by companies involved with variable interest entities. Prior to FIN 46R, companies have generally included another entity in its consolidated financial statements only if it controlled the entity through voting interest. FIN 46R changes that by requiring a variable entity to be consolidated by a company if that company is subject to a majority of the risk or loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. Consolidation by a primary beneficiary of the assets, liabilities and results of activities of variable interest entities will provide more complete information about the resources, obligations, risks and opportunities of the consolidated company. The Company does not have any investments in variable interest entities.

Supplemental financial information *(Unaudited)*

	Quarter ended December 31		Quarter ended September 30	
	2003 $	2002 $	2003 $	2002 $
Revenues	54,663	33,437	50,384	32,800
Cost of goods sold	44,188	28,000	41,404	27,510
Gross profit	10,475	5,437	8,980	5,290
Selling, general and administrative expenses	8,543	4,835	5,887	3,240
Earnings before the following	1,932	602	3,093	2,050
Interest expense	(278)	(383)	(680)	(302)
Interest and other income (expense)	120	(20)	201	30
Foreign exchange gain (loss)	653	36	(171)	(322)
	495	(367)	(650)	(594)
Earnings before income taxes	2,427	235	2,443	1,456
Provision for (recovery of) income taxes	(710)	(277)	343	(71)
Net earnings for the year	3,137	512	2,100	1,527
Net earnings per share for the year (1)				
Basic	0.06	0.01	0.05	0.04
Diluted	0.06	0.01	0.04	0.04

	Quarter ended June 30		Quarter ended March 31	
	2003 $	2002 $	2003 $	2002 $
Revenues	52,641	31,378	41,411	23,283
Cost of goods sold	43,536	25,942	34,293	19,979
Gross profit	9,105	5,436	7,118	3,304
Selling, general and administrative expenses	5,874	3,223	5,485	2,983
Earnings before the following	3,231	2,213	1,633	321
Interest expense	(493)	(306)	(491)	(422)
Interest and other income	173	97	37	111
Foreign exchange gain (loss)	254	466	341	(4)
	(66)	257	(113)	(315)
Earnings before income taxes	3,165	2,470	1,520	6
Provision for (recovery of) income taxes	769	766	456	(17)
Net earnings for the year	2,396	1,704	1,064	23
Net earnings per share for the year (1)				
Basic	0.06	0.04	0.03	0.00
Diluted	0.05	0.04	0.02	0.00

(1) Earnings per share figures based on quarterly weighted average number of shares outstanding.

Five year financial results review *(Unaudited)*

	2003	2002	2001	2000	1999
	$	$	$	$	$
Operating results					
Revenues	199,099	120,898	89,822	63,821	29,699
Cost of goods sold	163,421	101,431	77,450	54,650	25,193
Gross profit	35,678	19,467	12,372	9,171	4,506
Selling, general and administrative expenses	25,788	14,281	11,142	7,091	3,455
Earnings before the following	9,890	5,186	1,230	2,080	1,051
Interest expense	(1,942)	(1,413)	(1,745)	(959)	(226)
Interest income and other income (expense)	531	218	326	407	(104)
Foreign exchange gain (loss)	1,077	176	355	45	(48)
	(334)	(1,019)	(1,064)	(507)	(378)
Earnings before income taxes	9,556	4,167	166	1,573	673
Provision for (recovery of) income taxes	859	401	147	(545)	(284)
Net earnings for the year	8,697	3,766	19	2,118	957
Financial position					
Working capital	57,369	13,134	17,066	1,624	4,284
Total assets	173,756	115,287	80,061	58,304	22,246
Long-term debt	25,036	36,656	16,648	19,811	2,452
Shareholders' equity	119,947	49,527	43,500	20,892	11,362
Per common share					
Net earnings – diluted	0.18	0.09	0.00	0.09	0.06
Book value	2.28	1.18	1.06	0.74	0.55
Market price at period end (1)	9.23	3.15	2.17	1.44	0.81
Average trading volume (1)	331,000	51,000	57,000	70,000	42,000
Financial ratios					
Revenue growth	64.7%	34.6%	40.7%	114.9%	113.7%
5 year CAGR (2)	70.3%				
Gross profit %	17.9%	16.1%	13.8%	14.4%	15.2%
Net debt to equity	0.21	0.74	0.38	0.95	0.22

(1) STKL on NASDAQ

(2) Five year revenue cumulative annual growth rate

Directors

Jeremy N. Kendall
Chairman and Chief Executive Officer
SunOpta Inc.

Allan G. Routh
President, Grains and Soy Products Group
SunOpta Inc.

Joseph Riz [1][4]
Managing Director of Tricapital
Management Ltd.

James K. Rifenbergh [2]
Independent Consultant
Former President and Chairman of
Brown Printing Company of Waseca,
Minnesota.

Stephen R. Bronfman
Chairman of Claridge Inc.

Robert Fetherstonhaugh [4]
President of Claridge Inc.

Camillo Lisio [3]
Independent Consultant
Former President and Chief Operating
Officer of Saputo, Inc.

Cyril A. Ing
Corporate Secretary and
Independent Consultant, SunOpta Inc.
Former President of the Conat Group

Katrina Houde [2]
Independent Consultant
Former President of Cuddy Food Products

Dennis W. Anderson
Independent Consultant
Former Executive Vice President
of the SunRich Food Group, Inc.

(1) Chair of Audit Committee
(2) Member of Audit Committee
(3) Chair of Corporate Governance and Compensation Committee
(4) Member of Corporate Governance and Compensation Committee

Senior Management

Jeremy N. Kendall
Chairman and Chief Executive Officer, SunOpta Inc.

Steven R. Bromley
Executive Vice President and Chief Operating Officer, SunOpta Inc.

John H. Dietrich
Vice President and Chief Financial Officer, SunOpta Inc.

Sergio A. Varela
Vice President, Operations and Business Development, SunOpta Inc.

Benjamin Chhiba
Vice President and Corporate Counsel, SunOpta Inc.

Allan G. Routh
President, Grains and Soy Products Group

Arthur J. McEvily
President, SunOpta Ingredients Group

Stephen B. Easterbrook
President, Wild West Organic Harvest

Debra A. Boyle
President and Chief Operating Officer, Pro Organics

Larry (Andy) Anderson
Business Consultant, Food Operations

David J. Kruse
President, Opta Minerals

Murray J. Burke
Vice President and General Manager, Steam Explosion Group

Corporate Information

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Basman Smith LLP
Toronto, Ontario, Canada

Wildeboer Rand Thomson Apps & Dellelce, LLP
Toronto, Ontario, Canada

Auditors

PricewaterhouseCoopers LLP
Mississauga, Ontario, Canada

Shareholder communications

Copies of SunOpta's Annual Report, Form 10-K (Annual Information Form) and other Regulatory filings are available on the Company website www.sunopta.com. Additional financial information has been filed electronically with various securities commissions in Canada through SEDAR (www.sedar.com) and in the USA through EDGAR (www.edgar.com). Paper copies are available without charge.

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Annual and special meeting

Thursday, May 13, 2004 at 4:00 pm
Le Royal Meridien King Edward Hotel
Windsor Ballroom
Toronto, Ontario, Canada

Listed on Nasdaq as STKL
and TSX as SOY

Except for the historical information herein, the matters discussed in this Annual Report include forward-looking statements that may involve a number of risks and uncertainties. Future results may vary significantly based on a number of factors, including, but not limited to, risks in market acceptance of new products or technology, continuing product demand, the impact of competitive products and pricing, changing economic condition, and other risk factors detailed in the Company's December 31, 2003 10-K and other filings with the Securities and Exchange Commission.

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